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THE
DEVELOPMENT PROGRAMME
1966-67

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I. THE DEVELOPMENT PROGRAMME 1966-67

INTRODUCTION

The recovery programme—the first-phase

The first phase of the Government's recovery programme centered round efforts to restore the momentum of activity in the economy. Foreign exchange shortages over a period of years had resulted in a severely depleted level of supplies throughout the country. Agriculture, industry, and transportation were hampered by supply shortages and by a deterioration in the capital stock, and there was little prospect of economic recovery unless these deficiencies were remedied.

Greater external resources had to be mobilised for this purpose and foreign assistance was negotiated following meetings convened by the World Bank in July 1965 and May 1966. In conformity with Ceylon's requirements the assistance took the form, almost entirely, of 'commodity' or 'programme' aid—i.e., aid for the importation of general supplies required for productive purposes rather than for specific projects. There were also other facets to the recovery programme. Steps were taken to remedy the chronic monetary and fiscal imbalance of previous years—one of the deep seated causes of Ceylon's difficulties. Tax and other policy changes sought to restore the inducement to invest in the domestic private sector whilst obstacles which clogged the flow of private foreign capital were removed. All these formed part of a complex of measures to deal with the first phase of the recovery process.

It is difficult to be precise about the interval of time needed for the full impact of these measures to be felt. Whilst success has already been attained in the efforts to reduce monetary fiscal imbalance and to restrain inflationary pressures, the impact of the aid programme has been somewhat delayed. This was entirely due to the procedural lags involved in the initial round of a substantial aid operation. These lags tended to be particularly great since official aid is tied to purchases from donor countries—a practice that is virtually universal today. The World Bank initially estimated that the first 'emergency' phase of the recovery process will extend over a 12 to 18 month period. It is now evident that as far as supplies under the aid programmes of 1965 and 1966 are concerned the period would be somewhat longer.

Nevertheless, the flow of supplies under the 1965 aid programme are now under way. Bilateral agreements have been signed with six countries, allocations made to importers, and licences issued. Some aid imports have

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already arrived and the flow of supplies will accelerate further in the period ahead. In addition, negotiations are currently proceeding on the details of the 1966 aid programme and, with the experience already gained, it is likely that the lags in utilisation will be shorter than before. Thus, although the 1965 aid programme did not serve to improve the supply situation in that year, the whole of it, together with a substantial part of the 1966 aid programme, will be available for the purpose of increasing imports in 1966. Since the two aid programmes involve external resources amounting to about Rs. 475 million they make possible a sizeable addition to Ceylon's total imports during this year. These additions are already reflected in the import allocations made in the foreign exchange budget for 1966.

The initial phase of the recovery programme would by itself improve the economic situation once its full impact has been felt. The increase in productive activity made possible by additional supplies of raw materials, intermediate goods, transportation equipment, building materials and so on, will have beneficial effects on national income and employment. Although aid resources would be mainly utilised to import supplies needed for production rather than consumer goods, the availability of consumer goods should also improve significantly with the stepping up of domestic production. Nevertheless, improvements in the economy brought about by a higher utilisation of productive capacity through additional imports could only constitute a first step. Such a means is logical enough in a situation in which existing productive capacity was severely under-utilised and where its fuller use must obviously take precedence over the creation of new capacity. But, long-term growth requires new investment so as to expand progressively the productive capacity of the economy. The initial phase of the recovery programme must thus be followed, as early as possible, by a second phase based on purposeful and effective programmes of development covering at least the critical sectors of the economy.

Programming for development

The shift from the first phase of the recovery programme to the subsequent one would also be accompanied by a partial shift from the use of external aid in support of commodity imports to the use of aid in support of specific development projects and programmes. These shifts would need to be brought about progressively rather than suddenly. Commodity or programme aid will continue to remain an important component of Ceylon's total aid requirements over the next five years. The technical problems involved in attempting to mobilize the whole of such aid requirements through project aid only are formidable

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enough to rule out this possibility. Yet it remains true that donor countries are better geared to the provision of project aid rather than commodity financing on a continuing basis, and that Ceylon's future ability to mobilize external resources would be increasingly governed by the availability of soundly conceived programmes and projects suitable for external financing.

The preparation of such programmes and projects is thus one of the major tasks confronting the Government at the present juncture. A heightening of planning activity was clearly called for not only at the overall level but at the level of the several Ministries and departments responsible for the formulation and implementation of sectoral programmes. Unfortunately, the state of preparedness of the planning machinery and of the Ministries to undertake these tasks was poor indeed. Though several overall development plans had been prepared in the past these were largely of an aggregative character. They had not been adequately followed up by the formulation of more detailed programmes and projects which were capable of early implementation and which reflected the strategy and targets of the overall plan. By 1965, the planning organisation itself had virtually ceased to function as the focal point of development policy.

The first step was therefore to recreate an effective planning organisation. A new Ministry of Planning and Economic Affairs was established towards this end headed by the Prime Minister. A Cabinet Policy Co-ordinating Committee was also created comprising the Prime Minister, the Minister of State, and the Minister of Finance. The new Ministry has under its aegis the Department of National Planning as well as two newly established departments of Foreign Aid and Plan Implementation. The Planning Ministry was concerned in the initial period with the several aspects of the first phase of the recovery programme—the orderly budgeting of foreign exchange, the negotiation of external assistance, and the programme of monetary and fiscal stabilisation. But it had also to turn its attention at an early date to the requirements of the second phase—the preparation of plans and programmes for long-term development.

In view of the urgent need to make an early start on development programmes and projects and to mobilize external resources needed for them, the planning organisation placed emphasis on the preparation of practicable programmes for each of the critical sectors of the economy. The production of yet another aggregative or " macro-economic " 5, 6 or 10 year plan which would fully absorb the energies and resources of the planning organisation for a lengthy period was not an immediate priority in the existing situation. The emphasis had to fall, instead, on defining sound programmes for the major sectors of the economy and of resolving these programmes into a solid and well articulated project content. This has been a notable deficiency in the planning process up to now and has impaired Ceylon's ability to make an early start in harnessing external financing, other than supplier credits, for specific projects. The preparation and adaptation of sector programmes will make possible the preparation in due course of a comprehensive and internally consistent overall plan, but such a plan would clearly be less abstract and more operational in character than one formulated on the basis of a purely aggregative approach.

The several Ministries concerned with development submitted programmes, generally covering a five-year period, for the major sectors of the economy. For the purpose of co-ordinating these programmes and presenting them in a form suitable for planning purposes 4 Sectoral Committees were established by the Ministry of Planning and Economic Affairs. The Committees were composed of the Permanent Secretaries of the relevant Ministries and covered Agriculture, Industry, Economic Overheads, and Social Overheads respectively. They were a means of associating the Ministries with the planning process as well as of securing a degree of inter-Ministerial co-ordination. The Sectoral Committees were serviced by the technical staff of the Department of National Planning. These Committees have submitted reports setting out development possibilities in the critical sectors of the economy over the next five years. Much more needs to be done, both to weld these programmes into final plans consistent with the volume of resources available, and to resolve them into a series of specific projects that are better formulated and defined than was the practice earlier. This is the major task engaging the attention of the Planning Organisation at the present stage. Substantial progress has already been made in the process of appraising and evaluating the sectoral programmes and of identifying projects particularly suited to external financing. In this task, the Planning Ministry has had the assistance of several technical teams from the International Bank for Reconstruction and Development. Separate teams from the Bank have examined Ceylon's programmes in the fields of power development, agriculture, fisheries, transportation, water supplies, education, development finance, public sector industry, and irrigation and land development. The Reports of most of these teams are now available and are being published separately. Whilst these Missions were primarily concerned with the identification of projects that would be particularly appropriate for external financing, both by the Bank and its affiliates as well as other lending agencies, they have also critically examined the general programmes formulated by the Ministries and the sectoral committees.

What has already been done in recent months has served to provide a picture of at least the ' core ' of the development programme over the next five years and of the broad path of recovery and growth that the economy might be expected to take. This provided, in turn, a basis for determining the scale, character, and content of the development programme for the forthcoming financial year 1966–67. It was clearly important that adequate and timely provision be made for programmes and projects of importance to the development process so that the lag between planning and implementation is minimised. The budget for the current year 1965–66 was virtually confined to capital expenditures on continuing works. It is the budget for the next year 1966–67 that has made provision for the initial instalment of new and revised programmes.

The development outlays for 1966-67 are described in greater detail in a subsequent section. They reflect, as far as is possible at the present stage, the priorities and choices appropriate to economic growth. Although all the facets of a comprehensive plan have not been formulated as yet, it has been possible to define at least the major priorities and to obtain a broad picture of the likely pattern of growth over the next few years. It has also been possible to make an initial and tentative attempt at providing a measure of "quantification" of the long-term perspective through a series of inter-related projections. As a result it is possible, even at present, to make some assessment of the prospects for the Ceylon economy over the next five years and to outline the development strategy needed to realise them. It has also been possible to formulate the development programme for 1966-67 within the framework of such an assessment. These approaches were not possible an year ago when development possiblities for the major sectors could not even be generally identified except in a broadly notional manner.

The long term perspective

The performance of the Ceylon economy in recent years had admittedly been disappointing. Between 1960 and 1965, Gross Domestic Product in real terms increased at an annual average rate of about 3 per cent. With population growing at an annual rate of around 2.5 per cent, the margin left for improvement in per capita incomes was small indeed. Ceylon's economic growth rate has been amongst the poorest in Asia. Whilst large sections of the population have, to some extent at least, been cushioned against the effects of this by transfer payments of one kind or another, the process has imposed heavy strains on the fiscal system and reacted adversely on investment. The difficult supply situation in the country and its external payments difficulties, the continuing inflationary pressures on prices and living costs, and the growing volume of unemployment, are all manifestations of a retarded tempo of economic growth. Whilst limited expedients of one kind or another may relieve specific problems temporarily, an acceleration of the pace of overall growth is the fundamental remedy for most of the country's economic, and many of its social, problems. The attainment of an adequate growth rate must, therefore, be the primary objective of economy policy in the present context.

The rate of growth which Ceylon should strive to attain in the future needs to be determined realistically. In view of past performance too steep an acceleration over a short period might not be practicable. Countries with rapidly growing economies have enjoyed annual rates of growth of national income of between 6 and 10 per cent ; but it would be premature to postulate similar targets for Ceylon over, say, the next 5 years. The United Nations has adopted the goal of a 5 per cent growth rate as the minimum which each developing country should attain by 1970. This is a relatively modest goal when translated into an increase in per capita incomes in a setting of rapid population growth. But present evidence suggests that even this limited objective is unlikely to be attained by the developing countries as a group.. What is realistic for Ceylon would depend on the underlying possibilities for growth in the strategic sectors of the economy, the volume of resources that could be mobilised both internally and externally, the likely course of external prices or the terms of trade, as well as a host of other factors, both material and human. All these cannot be determined with finality at the present stage. But in the light of population growth, and the urgent need to provide employment opportunities for the rising workforce an average rate of growth of less than 5 per cent annually over the next five years would hardly be a satisfactory goal of policy. What Ceylon should aim at is a rate of growth which accelerates so that by the end of the plan period at least the economy would be poised for a further and more rapid spurt. A subsequent section sets out a broad framework illustrating the general horizons of relevance to economic development in Ceylon over the next five years. In this, an average annual rate of overall growth of 5.2 per cent has been postulated which would accelerate to 5.7 per cent at the beginning of the next planning period.

As mentioned, Ceylon's capacity to achieve these or better targets will depend primarily on the latent growth possibilities in the key sectors. If these are severely limited—whether for physical or technical reasons—the prospects for growth will be circumscribed. Fortunately, the possibilities on this score over the next five years do not appear inconsistent with the overall growth objectives suggested above. Earlier planning documents, in particular the Ten-Year Plan, have outlined the general strategy of relevance to the long-term development of the Ceylon economy. These have demonstrated the need for industrialisation—initially for the domestic but subsequently for export markets—as a source of self-sustaining growth. But, the central importance of agricultural development and its relationship to industrialisation has also been stressed. It is in fact, the case that a satisfactory rate of overall growth would be hardly practicable, unless the sector or sectors which enjoy a heavy weightage in the accounts of the economy as a whole are themselves capable of growing at an adequate pace. This means that in Ceylon the agricultural sector will have to grow rapidly because of its predominant place in the economy.

Fortunately the potential exists for such rapid growth in agriculture. In the case of the export crops, although world price prospects are poor, earnings could be strengthened by increases in output made possible by the evolution of new high yielding strains. For domestic agricultural crops, growth possibilities are large for two reasons—first, present levels of productivity reflect traditional techniques of production which are capable of being transformed by the introduction of more scientific methods and, second, new land is still available for extending the area of cultivation under irrigation. The five-year perspective for growth in the agricultural sector is heavily influenced by these possiblities. Programmes have been in existence in this field and encouraging results have already been obtained. What is needed over the next five years is a more concentrated and purposeful drive for raising output in this sector and an expansion and revision of programmes towards this end. Targets of output for agricultural crops have already been set by the Ministry of Agriculture and Food and targets for new irrigated extents by the Ministry of Land, Irrigation and Power. On the assumption that these targets are substantially, though not necessarily wholly, achieved a rate of growth in the domestic agricultural sector of about 6 per cent annually appears feasible. This would be, perhaps, the key element of relevance to the objective of attaining an adequate rate of overall growth in the economy over the five-year period.

Two further points need emphasis. First, the tentative assessment of growth possibilities for the agricultural, as well as for the other, sectors over the next five years is not based on estimates of positions likely to be reached by a simple projection of past trends. It is, on the contrary, an assessment of what might be possible on the basis of a vigorous and concentrated effort and on the assumption that policies and programmes will be adapted towards this goal. Second, though agricultural ojectives are often presented in terms of targets of output for the several domestic crops, the underlying process in this sector is virtually one of transforming, relatively rapidly, a low productivity subsistence peasant agriculture into a more modern high productivity system. A complex of social, institutional, and technical factors are involved requiring policies and measures on a variety of fronts. The objective of creating a more viable and dynamic domestic agriculture is also of relevance to new lands made cultivable by irrigation. It will admittedly be of limited value to transfer a low productivity agriculture from one part of the country to another through a costly process of constructing irrigation works, of land clearing, and so on. But, the return to irrigation and land development which might be poor under this type of programme may be transformed if based on a better system of agriculture. The future development of agriculture in Ceylon need not continue to be based on one or the other of the two polarities which have hitherto been familiar—plantation agriculture and subsistence peasant farming. New prototypes need to be evolved which utilize modern scientific and technical knowledge whilst being suited at the same time to the land/labour ratio which is likely to prevail in agriculture at the present stage of development.

The emphasis on agriculture—and also on fisheries—over the next five years is closely linked up with the objective of industrialisation as well. The tempo of industrial growth in Ceylon is related to the country's balance of payments position since it is linked to the importation of machinery, equipment, and raw materials. The more Ceylon's limited foreign exchange earnings are devoted to the import of food and other consumer goods the less would be available for importing capital goods and raw materials. Hence the programmes in the agricultural sector which aim at import substitution and at increasing exchange earnings form part of a strategy aimed at industrialisation as well. Moreover, the growth of a domestic market for industrial products is critically dependent on the growth of productivity and incomes in agriculture. A shortfall in performance in the agricultural sector will, for all these reasons, clearly prejudice the attainment of growth targets in the industrial sector.

A comprehensive assessment of the rate of growth possible for the industrial sector over the next five years—through both public and private investment—has yet to be completed. But the illustrative framework provided in the section to follow suggests that the attainment of the overall growth target for the economy as a whole would require, in the context of growth possibilities in other sectors, a rate of expansion of around 9 per cent annually in industry. This means that industry should grow at a faster rate than agriculture, though from a smaller base, and that the share of industry in the total economy will increase progressively. Industrial growth in recent years had in fact attained the tempo depicted here until thwarted by restrictions on the import of raw materials and capital goods. It should also be mentioned that there are substantial growth possibilities for the construction sector. In a rapidly growing economy construction should in fact grow at a substantially faster rate than the economy as a whole since development in virtually every sector involves construction. Similarly, another sector with good growth possibilities is tourism, which has already been given an important place in development priorities.

The overall rate of economic growth over the next five years will also reflect expansion in the sectors of economic and social overheads. The needs and possibilities in these fields have been outlined by the respective Sectoral Committees and have been taken account of in the initial framework outlined in the succeeding section. In the case of economic overheads, i.e., power, transportation, etc., the pace of growth has to be related to the tempo of expansion in other sectors of the economy. This is also true in part of investments in the social-services sector. In the case of the latter, stress must, however, be placed on the need for new orientations. Investment in human resources is an essential part of the development process. Ceylon, more perhaps than most other developing countries, has made proportionately heavy investments in this field in the past. But in the present context a new emphasis needs to be given towards adapting outlays in these fields to development objectives and this is increasingly reflected in the plans and programmes currently being prepared.

In achieving the overall growth targets the private sector has a very definite and important role to play. The structural transformation of the economy through a growth of industry by 9 per cent per year would indeed be impossible without a bolder and more vigorous participation by the private sector than in the past especially, since the easiest avenues of import substitution have already been exhausted. Similarly, the agricultural programmes and those in the field of fisheries and tourism call for new initiatives from the private sector. To accord, this kind of role to the private sector does in no way conflict with the process of planning. The private sector will work within the broad planning and policy goals of Government and to this end present day economic policy is capable of deploying a variety of selective inducements and restraints of both a fiscal and a monetary nature. The emphasis, where appropriate should be on indirect rather than direct controls so that economic decision making can be decentralised to a greater extent.

As mentioned, the several possibilities pertaining to sectoral growth have been tentatively brought together in the form of the illustrative framework outlined in the next section. It is necessary to emphasise that this framework does not at the present stage purport to set out targets to be incorporated in an overall plan. Its objective is broadly to set out the possible inter-relationships that are suggested by the programmes that have been initially drawn up for the several sectors of the economy and to depict a series of magnitudes that are internally consistent without being wholly unrealistic. An illustrative framework of this character provides a perspective for planning activities and an initial basis for the formulation of specific programmes. It is, in other words, a foundation to be constantly revised and expanded upon as these programmes attain greater definition and content. But it is nonetheless of value in that it serves, even at an early stage, to provide a picture of the possible path of future development. Without such a framework, planning would not get beyond the collation of miscellaneous programmes and projects without any overall perspectives or a general pattern of priorities. The section to follow presents the main aspects of the illustrative framework. It indicates projections of sectoral output, of investment and its employment content, of the domestic savings of effort required, as well as of the foreign savings needed to achieve the plan targets. A technical appendix explains the tables that form the core of the illustrative framework.

II. THE FRAMEWORK

Projection of Gross Domestic Product

THE projections in Table A below are at 1965 prices and take account, after suitable modification, of the output targets indicated by the Sectoral Planning Committees. Thus value added in production for export has been assumed to grow at the rate necessary to reach the export targets of the Agricultural Development Plan after adjusting for possible shortfalls, i.e., about 3 per cent per annum. Similarly the rate of growth of domestic agriculture of 6 per cent per annum is dominated by the rates of growth of paddy production and of the output of fish provided for in the respective sector plans. The relatively modest growth rate of other domestic agriculture—3 per cent per annum—reflects on the other hand the working of a combination of factors—a relatively high base year value, the emphasis on production for export as distinct from domestic consumption of exportables in the case of those export crops which have a domestic use as well, and the probable pace of progress of import substitution in subsidiary food crops. Indeed the progress that is to be expected in subsidiary food crops is substantial but this is not fully reflected in the growth rate of "other" domestic agriculture, because of a low base year value for these crops.

TABLE A

GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN—1965 AND 1971
AT 1965 FACTOR COST PRICES

	1965		*1971*		*Annual average (compound) rate of growth*
	Rs. Million	*Per cent*	*Rs. Million*	*Per cent*	*1965–1971 Per cent*
1. Agriculture	3,062	41·4	3,996	39·7	4·5
(*a*) Production for export	1,572	21·2	1,883	18·7	3·0
(*b*) Production for domestic use	1,490	20·2	2,113	21·0	6·0
(i) Paddy	358	—	643	—	—
(ii) Fisheries	147	—	294	—	—
(iii) Others	985	—	1,176	—	—
2. Manufacturing, mining and construction	1,087	14·7	1,824	18·1	9·0
3. Services	3,255	44·0	4,240	42·1	4·5
TOTAL (=Gross Domestic Product)	7,404	100·0	10,060	100·0	5·2

While the overall rate of growth of a predominantly agricultural economy is in the short run inevitably determined by the growth rate of agriculture, the process of economic transformation and sustained growth requires a structural shift in favour of industry, on account of the long-term limits to continued expansion in agriculture. It is significant, therefore, that the rate of growth projected for the sector of manufacturing, mining and construction is the highest of the sectoral growth rates aimed at. Manufacturing for the domestic market grew fairly rapidly after 1960 under the shelter of import controls then imposed for balance of payments reasons. The intensification of the foreign exchange shortage after 1963 checked the pace of growth, as licences for the establishment of new industries were restricted and the flow of imports of materials needed for the full employment of capacity dried up. The rate of 9 per cent adopted here for the industrial sector as a whole, represents a return to the rate of growth achieved in 1960–63 but on a larger base year value and would imply a more variegated industrial pattern after a period when the easiest avenues of import substitution have already been explored. In the long run the ability to sustain a rapid rate of growth in industry depends ultimately on the extent to which output increases in agriculture provide an expanding market for industry, as well as on the possibilities of industrial production for export.

The category of services which is projected to grow at 4½ per cent annually covers a somewhat heterogeneous mixture of activities whose separate evolution is a little difficult to uncover with the information at present available. It includes a considerable part of current Government consumption most of which is spent on services, and which as a whole is assumed to grow at 4 per cent a year. It also includes the net output of the transport and communications sector in which the Government envisages heavy investment. An allowance has also had to be made for the rapid rate of industrial growth envisaged, which requires a complementary expansion in the 'services' infrastructure of banking and merchanting.

The overall rate of economic growth that results from these sectoral projections is an annual average compound rate of 5.2 per cent. It has to be borne in mind that fluctuations about this trend of output can occur from year to year, depending on external factors such as the vagaries of the weather etc. This average requires a gradual acceleration of the annual growth rate during the plan period so that at the end of the terminal year the economy can be expected to be growing at 5.7 per cent; and with population growing at 2.4 per cent income per head rises by 2.8 per cent annually. The structural changes that result are also set out in Table A. The share of manufacturing, mining and construction in G.D.P. rises from 15 per cent in 1965 to 18 per cent in 1971, and of domestic agriculture from 20 to 21 per cent. Correspondingly production for export and in the services sector decline in importance.

The Investment Projection

The preliminary projection of the total investment that is needed in order to attain the projected growth of output is Rs. 8,630 million over the whole period*.

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* This figure is expressed in factor cost terms while the comparable figures given in the tables are in market prices after adjusting for indirect taxes net of subsidies.

The allocation of this total between the various sectors of the economy has not been attempted for lack of firm information on sectoral capital requirements. However, a tentative picture of the movement of the investment totals between the base year and the final year and of its distribution between the Government and private sectors is possible. Annual gross investment at market prices rises from 11.6 per cent of G.D.P. in 1965 to 18.0 per cent of G.D.P. in 1971, or at an annual average (compound) rate of 13.5 per cent (Table B). The relative distribution of total investment in 1971 between the private and public sectors, as defined below in national accounting terminology, is in the proportion 60 : 40 and is not much different from that in the 1960s although in 1965 private investment formed a lower proportion due to foreign exchange shortages.

TABLE B

RESOURCES AND THEIR UTILISATION—1965 AND 1971

(at 1965 Prices)

Rs. Million

	1965	*1971*
A. *Resources*		
1. Gross domestic product (at factor cost)	7,404	10,060
2. Goods and services deficit	−26	268
3. Indirect taxes less subsidies	546	965
TOTAL	7,924	11,293
B. *Utilisation*		
4. Private consumption	5,744	7,869
5. Public consumption	1,141	1,444
Total consumption	6,885	9,313
6. Private investment	515	1,186
7. Public investment	409	794
Total investment (including stocks)	924	1,980
8. Statistical discrepancy*	115	—
TOTAL	7,924	11,293

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* The statistical discrepancy in the base year data reflects the discrepancy between the national accounts derived from the expenditure side and the production side, the data for 1965 are based on the Annual Report of the Central Bank of Ceylon for 1965 and differences between the Bank's data and those presented here incorporate revisions to take account of fuller information that has become available since the publication of the Central Bank Report.

It is possible on somewhat arbitrary assumptions to translate this sectoral distribution into the rather different definitions used in the budgetary revenue and expenditure classification. The major differences between the national accounts concept of Government capital *formation* employed in the Tables presented here and the estimate of capital *expenditure* given in the Government budget are that the latter figure includes transfers to corporations, which are, treated as being in the private sector for national accounts purposes (and which are accordingly deducted in arriving at the national accounts definition), and excludes certain items which figure in the current Government Budget but which are treated as being part of capital formation in the national accounts.

TABLE C

COMBINED REVENUE AND CAPITAL ACCOUNT OF THE PUBLIC SECTOR—1965 AND 1971

(at 1965 Prices)

Rs. Million

	1965	*1971*
1. Gross income	−9·7	25
2. Taxes less subsidies		
(*a*) Direct	652·6	833
(*b*) Indirect less subsidies	545·6	965
3. Miscellaneous receipts	219·9	260
4. Loans and grants		
(*a*) Foreign	87·9	283
(*b*) Local	379·4	474
TOTAL	1,875·7	2,840
5. Current expenditure	1,141·3	1,444
6. Capital expenditure	409·0	794
7. Transfer payments	219·5	355
8. National debt interest	105·9	247
TOTAL	1,875·7	2,840
9. Public savings	−58·3	37

The transfers to corporations were Rs. 162 million in 1965 and are provisionally estimated to be Rs. 232 million in 1966. If these can be stabilised around Rs. 250 million by 1971 by a progressive increase in the ability of corporations to finance their expansion out of reserves, then the figure of Rs. 794 million representing Government capital formation in Table C in 1971 rises to nearly Rs. 1,050 million. Since this figure includes an element of what is classified as current expenditure in the Government budget an appropriate deduction has to be made. Such 'capital items' in the current Government budget have in the past fluctuated between Rs. 70 and Rs. 90 million and an attempt is being made to improve Government budgetary procedures so as to include as many of these items as possible in the capital account where they properly belong. These items amounted in 1965 to Rs. 90 million and are therefore expected to decline to Rs. 70 million in 1971. Making allowance for this figure, the amount corresponding to the budgetary concept of capital expenditure in 1971 then becomes Rs. 980 (Rs. 1,050–Rs. 70) million which has to be compared to the Rs. 684 million to which the 1966/67 capital budget of Rs. 760 million reduces when a 10 per cent allowance is made for under-expenditure. In terms of the budgetary classification then, Government capital *expenditure* increases by 9·5 per cent annually between 1967 and 1971.

Alternatively the 1966/67 capital budget can be translated into national accounting terms by assuming that transfers to corporations remain unchanged at last year's level of Rs. 232 million and that the capital items in the current budget amount to Rs. 80 million. The figure of Rs. 684 million that represents the likely expenditure out of this year's capital budget then becomes Rs. 532 million (Rs. 684 + Rs. 80–Rs. 232). Thus on this basis Government capital formation rises from Rs. 409 million in 1965 to Rs. 532 million in 1967 or by 30 per cent. Since Government capital *formation* is Rs. 794 million in 1971, the annual rate of increase is 10.5 per cent between 1967 and 1971.

Investment and Employment

Before passing on to the question of financing the investment programme it is useful briefly to consider its employment aspects. The usual procedure for estimating the employment content of an investment programme at the preliminary level of the present exercise, is to use an estimate of capital investment per man employed, derived from the country's experience in the recent past. Even this, it must be emphasized is no more than provisional, as the precise choice of techniques embodied in the plan will not become known until the project content of the plan is decided upon, and the relative proportions of labour intensive and capital intensive projects within the total

TABLE D

INCOME AND CURRENT EXPENDITURE OF THE PRIVATE SECTOR—1965 AND 1971

(at 1965 Prices)

Rs. Million

			1965	*1971*
	1.	Gross domestic product	7,404·0	10,060
Less	2.	Gross income accruing to Government	–9·7	25
	3.	Income payable abroad (net)	15·2	134
	4.	Private donations payable abroad	24·2	34
Plus	5.	National debt interest	105·9	247
	6.	Transfer payments from Government	219·5	355
		Gross Private Income	7,699·7	10,469
	7.	Private consumer expenditure	5,744·0	7,869
	8.	Direct taxes etc.	872·5	1,093
	9.	Gross private savings	1,083·2	1,507
		TOTAL	7,699·7	10,469

TABLE B

THE PRIVATE SECTOR CAPITAL ACCOUNT—1965 AND 1971

(at 1965 Prices)

Rs. Million

	1965	1971
1. Gross private savings	1,083	1,507
2. Capital and loans from abroad (net)	14	153
TOTAL	1,097	1,660
3. Private gross investment (including stocks)	515	1,186
4. Net lending to public sector	379	474
5. Statistical discrepancy*	203	—
TOTAL	1,097	1,660

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* This discrepancy reflects, in addition to the usual discrepancy observed in National Accounts data, the difference between foreign grants and loans as derived from Government accounts data and from balance of payments data. The difference would appear to be due to differences in coverage.

are established. But even for the purposes of a tentative "first" figure one is handicapped by the lack of reliable data concerning the capital intensity of investment in recent years. In the circumstances, recourse has been had to the figure of investment per man implicit in the Ten-Year Plan, adjusted for price changes since 1957 to which the plan data refer. An investment programme of Rs. 8,630 million on this basis carries an employment potential of 690,000 and implies an increase in productivity of 2.2 per cent per annum. A programme of this size should more than suffice to provide employment to the expected increment in the labour force of 630,000 between 1965 and 1971. As mentioned, these are aggregative projections which are largely of an illustrative character. However, in view of the existing backlog of unemployed and certain special characteristics of the unemployment problem—e.g. unemployment among educated youth—special attention to employment creating activities would be given in the allocation of investment and selection of projects so as to further increase the employment potential of the plan.

Public and Private Savings

Public and private savings (Tables D & E) together serve to finance nearly 80 per cent of the investment total contemplated for 1971 (Table F overleaf). The significant feature of the savings effort is that it is about as ambitious as can be hoped for, but yet requires a substantial injection of net external assistance by way of loans and official grants amounting to Rs. 436 million, if the investment programme is to be sustained. This level of assistance is a lower proportion of capital formation than the 25 per cent that is the average for developing countries as a whole today. It also represents a decline from current (i.e., 1966) levels of aid per capita and a lowering of the proportion of imports financed by aid.

TABLE F

CONSOLIDATED CAPITAL ACCOUNT FOR WHOLE ECONOMY 1965 AND 1971

(at 1965 Prices)

		Rs. Million	
		1965	*1971*
	Total gross investment	924	1,980
	Statistical discrepancy*	114	—
Financed by			
	External finance (net)	13	436
	Gross domestic saving	1,025	1,544
Of which			
	Public Sector	−58	37

*Please see the footnote in Table B.

The marginal rate of savings implicit in the calculation is substantial and of the order of 20 per cent. The public savings effort required is even more substantial, additional receipts by Government at existing tax rates being 24 per cent of the additional gross domestic product generated (Table C).

The implications of the savings targets assumed here emerge more clearly when the Government accounts data are translated into the more familiar budgetary classification. Since Government capital *expenditure* understood in this sense has been put at Rs. 980 million in 1971 and total borrowings from both foreign and domestic sources at Rs. 757 million, it follows that the revenue surplus on current account must be Rs. 223 million. The revenue projections imply that total Government receipts (gross of subsidies) grow roughly in line with gross domestic product so that receipts as a proportion of G.D.P. are little changed, being 23.4 per cent in 1965 and 23.9 per cent in 1966. Indeed, these proportions are sufficiently high as not to allow much room for an upward revision of existing tax rates, unless shortfalls occur in projected Government receipts. Consequently, the major responsibility for securing a current account surplus of the order of Rs. 223 million must fall either on efforts to contain the increases in current expenditure and/or efforts to reduce the reliance of public corporations on subventions from Government. In the present exercise it has been assumed that the food subsidy will be contained at current levels, that transfers to Corporations are stabilised at little more than current levels, and that current Government expenditures on goods and services grow conservatively at 4 per cent per annum.

TABLE G

INTERNATIONAL TRANSACTIONS—1965 AND 1971

(at 1965 Prices)

	Rs. Million 1965	Rs. Million 1971
Debits		
1. Merchandise imports (c.i.f.)	1,916	2,580
2. Investment incomes paid abroad	15	134
3. Private donations	24	34
TOTAL	1,955	2,748
Credits		
4. Merchandise exports (f.o.b.)	1,911	2,280
5. Services (net)	31	32
6. Capital and Loans from abroad to the Private Sector*	14	[redacted] *153*
7. Official donations and borrowing (net)†	−1	283
TOTAL	1,955	2,748

TABLE H

VALUE OF IMPORTS—1965‡ AND 1971

(at 1965 Prices)

	1965		1971	
	Rs. Million	Per cent	Rs. Million	Per cent
1. Consumer Goods	1,093	53	878	34
(i) Rice	342		224	
(ii) Flour	135		120	
(iii) Sugar	84		84	
(iv) Other foodstuffs	342		300	
(v) Other consumer goods	190		150	
2. Intermediate Goods (including Petroleum and Fertiliser)	530	26	916	36
3. Investment Goods	444	21	786	30
TOTAL	2,067	100	2,580	100

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* Denotes inflow into private sector including public corporations.

† The discrepancy between the data for 1965 and the corresponding data in Table C reflects the differences in coverage between Government accounting data and balance of payments data.

‡ The import data for 1965 relate to licences issued. The total value of licences issued for the import of commodities in 1965 exceeds that of actual imports due to the under-utilization of licences, as issued. The value of total merchandise imports in Table F differs further due to discrepancies in Customs and Exchange Control data.

A savings effort of the kind envisaged above need not mean that prevailing levels of consumption will be depressed. What the projections do in fact show is that per capita consumption at factor costs will increase by 15.6 per cent or at the compound rate of 2½ per cent per year, i.e., from a value of Rs. 469 in 1965 to Rs. 542 in 1971. Per capita income will of course increase by a rather larger margin since savings take up a substantial portion of the increment in income. Thus per capita income rises from Rs. 659 in 1965 to Rs. 777 in 1971 at the compound rate of 2.8 per cent per annum (Table B). For the purpose of these calculations population is assumed to grow at 2.4 per cent per year between 1965 and 1971.

The International Account

Little needs to be said on this score beyond noting that the import projection in Tables G & H is as far as possible consistent with the assumed sectoral rates of growth in the projection of gross domestic product. When a particular increase in, for example, paddy production is envisaged, the corresponding saving in imports is allowed for in the import projection ; and where the contemplated expansion of production entails a demand for imported intermediate inputs as in the case, for example agro chemicals for the agricultural programme or raw materials for the industrial programme, this has been taken account of. Imports of investment goods have been determined on the basis of the probable import content of total investment. The resulting merchandise trade deficit (given the export projection) has been adjusted for expected changes in the net invisible account to yield the required estimate of net loans and grants in 1971 (Table G).

The total value of imports licensed for 1965 is shown in Table H. The total has been classified by broad economic categories into consumer, intermediate and investment goods. The projected import requirements in 1971 sum to Rs. 2,580 million—an increase of more than Rs. 500 million over the import licences in 1965. The ratio of imports to gross domestic product in 1971 is expected to be approximately 26 per cent, the corresponding figure for 1965 being 29 per cent. The proportion in 1959, a less abnormal year than 1965, was 36 per cent. Therefore it is expected that by 1971, the economy will be less 'open' than it hitherto has been.

Of greater significance is the change in the composition of imports in tune with the changing structure of the economy. As explained earlier, the strategy of economic development within the next five years is that of substitution of domestic products for imports. As in many other countries in a similar stage of development, the first stage in this process consists in substituting locally produced consumer goods for imports. And this necessarily entails augmenting the flow of intermediate and investment goods. It is therefore expected that the proportion of investment goods will rise to 30 per cent from 21 per cent in 1965, intermediate goods to 36 per cent from 26 per cent, while the proportion of consumer goods will fall from 53 to 34 per cent. The imports of investment goods are expected to grow at 10 per cent per annum (compound) and of intermediate goods at 9.5 per cent per annum (compound). In sum, the foreign exchange earnings of the economy will progressively be used more for the purchase of capital equipment and material necessary for domestic industry than for the purchase of consumer goods from abroad.

The Terms of Trade

It is useful to end on a cautionary note regarding the prospects for development in the kind of international economic environment that developing countries find themselves in. Although the present exercise has been conducted in terms of constant prices, it has sought implicitly to allow for declining export prices by taking a deliberately conservative view of the export targets contained in the agricultural plan. In other words, physical production has been deliberately scaled down below what seems likely, so that its value at constant prices, approximates to that of planned production at a lower level of prices. The implicit reduction in export prices involved in this procedure is quite modest. But as it is the growth rate of 5.2 per cent will extend the savings capacity of the country. Any further reduction in export prices or a worsening of the terms of trade must therefore entail additional net external assistance beyond the Rs. 436 million assumed here in 1971, if the achievement of investment, employment and growth targets which are not in themselves over-ambitious is not to be impaired.

III. CAPITAL BUDGET FOR THE YEAR 1966/67

(I)

THE Government Budget for the financial year 1966/67 has made provision for an investment of Rs. 760 million under Votes 3, 5 and 7. The comparable figure for the financial year 1965/66 was Rs. 578 million. The investment proposed for the year 1966/67 therefore envisages an increase of Rs. 182 million which is approximately 31 per cent more than the allocation in the current year's Budget. These comparisons relate to budgetary provisions. Actual spending is likely to fall short of provisions in each of these years. For the next financial year although allowance has been made for a 10 per cent underexpenditure in the total provision, there would still be a considerable stepping up of capital expenditure relating to levels reached in the past.

The capital budget for 1966/67 also represents a conscious effort to make the budgetary allocations part of a planned programme of investment. In the past, the gap between budgetary resources and the programme of investment given in the national plans has been so large that there has been no consistent attempt to determine priorities and relate the budgetary allocations to the planned targets of investment. The formulation of the capital budget for 1966/67 was facilitated by the action taken by the Planning Ministry to appoint 4 Sectoral Planning Committees, and by the analysis and evaluation of sectoral programmes by several technical missions from internationl organisations particularly the I.B.R.D. The Sectoral Committees were required to list the programmes and projects which were already undertaken, as well as identify new programmes and projects which offered definite prospects of investment during the next five years. These were to be assembled and organised into sectoral programmes of work to cover a period of five years. On this basis the Committees have prepared Sectoral programmes for Agriculture, Industry, Economic Overheads and Social Services, incorporating projects which have been or are being examined for their feasibility, and have therefore reached some stage of maturity.

A statement of the aggregate investment proposed by these Committees in the four Sectors is given below :

	Rs. Million
Agriculture	1,439
Industries	843 (excluding Fisheries)
Eonomic Overheads	1,561
Social Services	1,173

The majority of these programmes are phased over a period of five years. However, the sum total of these schedules presented by the four Sectoral Committees demand a volume of investment well beyond the resources which the Government could command over a 5-year period. Therefore in determining the provision for 1966/67 it was necessary to scale down the estimates of the Sectoral Committees so as to conform more closely to levels of investment which would be consistent with future possibilities. This had to be done in accordance with a pattern of priorities as far as the present stage of project preparation would permit so that the programme for 1966/67 would form the base of the future development effort. The problems relating to project evaluation will be discussed in a later section. At this point, it has to be noted that it was not practicable to base all budgetary allocations for 1966/67 on an intensive and thorough appraisal of projects, which would have been the ideal pre-requisite of investment decisions. While arrangements are being made to strengthen the planning machinery for this purpose both at the overall and the Ministry level, decisions had to be taken for the speedy implementation of continuing projects, and the incorporation of new projects which were feasible, according to studies which had already been made. The proposed investments therefore do not constitute an unalterable and final commitment on policies and planning perspectives for the next five years. The process of project evaluation is certain to focus attention on the need for new orientations in almost every sector, which will improve the basis for policy decisions, reflecting the continuing nature of planning.

The major portion of the additional capital provision that has been made for 1966/67 has been directed to the productive sectors. Of the additional Rs. 182 million, the programmes of economic development in the agricultural and industrial sectors including cottage industry, land development, irrigation and fisheries will receive approximately Rs. 105 million. Economic overheads including power, roads, railways, civil aviation and ports will receive approximately Rs. 50 million. The balance of the additional allocation will be distributed to programmes in the social services sector including health, education and housing. A small percentage will be absorbed by other administrative overheads such as the programmes under the Ministry of Defence and External Affairs and the Ministry of State. The total allocations made to the different sectors are shown in the statement given below : they broadly indicate how the investments in 1966/67 reflect the broad general direction of future growth of the economy.

	Rs. Million
1. Agricultural Sector	219
2. Industrial Sector—(i) Manufacturing Industry ..	142
(ii) Fisheries	43
3. Economic Overheads	199
4. Social Services	121
5. Other Overheads	36
	760

These figures do not include capital expenditure which will be financed from extra budgetary sources. Approximately Rs. 18.5 million will be spent out of the tea subsidy fund next year on the replanting scheme. The Petroleum Corporation will invest approximately Rs. 26.7 million on an oil refinery and a lubricant blending plant from funds obtained from its own development reserves. The Department of Government Electrical Undertakings will spend Rs. 6.5 million on rural electrification from the Departmental Reserve, Extensions and Renewals Fund. Moreover, the net investment figure of Rs. 760 million which is included in the Budget does not reflect the full value of machinery and equipment that Government Departments and Corporations propose to obtain on credit terms negotiated with suppliers. This applies to budgetary allocations that had been made for the Dieselization programme of the Railway Department, the Power Transmission Programme under Maskeliya Stage I, etc. When credit is taken for all these investments including those financed from extra budgetary funds, the capital investment programme for the year 1966/67 undertaken by Government Departments and State Agencies will approach a total of about Rs. 850 million.

Table below contains a distribution of the capital investments that will be made for 1966/67 under committed and new works.

	Committed	*New*	*Total*
Agriculture	109	110	219
Industries and Fisheries	115	70	185
Economic Overheads	168	31	199
Social Services	49	72	121
Other Overheads	9	27	36
	450	310	760

Under new works the figures shown include annual programmes such as fertilizer subsidy schemes, minor irrigations, village expansion, grants to local authorities for village works, etc. which generally do not involve Government in irrevocable construction commitments carried over from the past. It is estimated that the value of such annual programmes in 1966/67 amount to about Rs. 114 million.

The total balance commitment beyond 1966/67 on items both committed and new in the Capital Budget for 1966/67 amounts to approximately Rs. 1,914 million. Future expenditures on annual programmes are not included in the figure. The balance commitment on new works which would in some cases extend beyond 1970 is estimated at approximately Rs. 730 million. These commitments when phased over the next few years will progressively decline leaving an increasing margin for the inclusion of new projects.

In addition to the development programme reflected in the Government Budget, a stepping up of investment activity in the private sector is also anticipated over the period ahead. A substantial part of Government capital expenditure is for the purpose of increasing production in the private sector. This is true, of virtually the whole of investment in the agriculture sector. It is also true of a part of Government investment in the fisheries and industrial sectors. Outlays on fisheries harbours and the mechanisation of existing craft, assistance to small-scale industries, industrial research, and industrial estates, all serve to increase private sector activity and output. Besides this, other policies and measures of Government will also stimulate development in the private sector. These include tax incentives, saving rebates, changes in land policy, and programmes designed to stimulate private foreign investment. In addition, the increase in foreign exchange allocations for productive purposes, largely made possible by the aid programmes, would eliminate one of the major bottlenecks which had hitherto retarded growth in the private sector. The overall growth rate of the economy and the increase in local employment opportunities will be the combined result of increased public sector investment brought about by the development programme for 1966/67 and of rising activity in the private sector.

With the increase in the capital allocation for 1966/67, the Development Ministries have had to be strengthened with additional staff and facilities to execute the expanded programmes to which they will be committed in 1966/67.

Consequently, the recurrent budget includes increases of expenditure which are directly related to the enhanced programmes of development for the coming year. Provision has been made to strengthen the administrative machinery in the Ministries of Land, Irrigation and Power, Agriculture and Food, Industries & Fisheries in order to improve the quality and output of work on development.

On the data available, it is difficult to estimate accurately the employment content of development programmes in next year's capital budget. Many of the projects which the Budget includes are not expected to be completed and in operation by the end of the year. Consequently, the employment content of investment is very largely a constructional one. In the agricultural sector, however, it is expected that a certain acreage would be made available by the end of this year for the settlement of colonists ; and in export agriculture a substantial replanted area will become productive ; on the normal allotments to colonists and on the probable numbers required for working the replanted area, the new settlements and the replanted extents are expected to absorb on an approximate basis some 25,000 people. So far as the remainder of government investment is concerned, in addition to the number employed on continuing projects last year there will be further employment in construction because of the increase in investment that is contemplated this year in both existing and new projects. The increase in total investment over last year's capital budget is substantial and amounts to Rs. 184 million (Rs. 684–500). When allowance is made for the import content of this increase by way of machinery and imported raw materials, the remainder necessarily comprises the value of domestic materials and equipment used, and value added in the processes of investment. Making reasonable assumptions about these magnitudes and about the share of labour in value added, the very approximate figure of 30,000 for additional employment during this year's investment programme, i.e., during its constructional phase can be arrived at.

The employment content of this year's Capital Budget including that in agriculture would on this basis be approximately 55,000. This, however, does not take into account the additional employment that would be created when a number of projects, both new and continuing which are included in the 1966/67 budget are completed. But, as mentioned, estimates such as these are liable to wide margins of error. What can be said with certainty is that the accelerated development programme, particularly if translated into realised expenditures will generate a quantum of employment in the public sector much in excess of levels previously reached.

(II)

Summary of Sectoral Programmes

(*a*) Agriculture

The 1966/67 Budget provides Rs. 219 million for investment in the Agricultural Sector, an increase of approximately Rs. 54 million over the allocation made in the current year's budget.

As mentioned earlier, the major emphasis of development strategy has been to achieve a substantial degree of import substitution, within the 5-year period. This policy has two facets. In the first place, it releases foreign exchange for the import of developmental goods—machinery and raw materials. Second, it generates incomes and demand in the import substituting sectors, which serve to stimulate expansion elsewhere. Domestic agriculture perhaps provides the clearest example of this strategy. The planned increase in paddy output entails a freeing of Rs. 160 million of foreign exchange in 1971 which can be made available for developmental imports. The increased productivity and incomes in domestic agriculture that accompanies this process in turn enables a further expansion in the industrial sector than would otherwise have been possible.

The investment in paddy production during the five-year period must be adequate to conform to requirements of attaining the planned output targets. As already observed it has not been possible for the present to allocate sectorally the total investment programme for the whole of the period due to a lack of sufficient information on sectoral capital requirements. Nevertheless, a start has had to be made with the allocation of this year's public sector investment among competing uses and the broad criterion has been to accord priority in each sector to those projects which promise the greatest addition to output per unit of investment.

To illustrate again from the case of paddy production, particular emphasis has been given to the intensification of production in *existing* areas at relatively low capital costs per unit of output ; indeed as indicated below over a third of investment in paddy is of this kind. In addition irrigation projects already commenced have been given adequate provision to ensure that they be completed as quickly as possible.

Since the required increases in output cannot be fully met out of existing areas, and since a diversified regional development is contemplated, the programme envisages an investment in large-scale irrigation schemes. It remains nonetheless true that there is still considerable scope for a rationalisation of investment decisions in this area not only by way of more refined techniques of project evaluation, but also through basic decisions on strategy as for instance on the relative priorities of integrated river basin schemes such as the Mahaveli, compared with a diffusion of activity on a multiplicity of smaller scale self-contained works. Consideration is also being given to the pattern of settlement in these new areas with the objective of promoting a more dynamic agriculture than in the past and of securing a higher return per unit of investment.

A Five-Year Sectoral Programme for irrigation and land development has been prepared by the Ministry of Land, Irrigation and Power. This programme is currently being reviewed and appraised for the purpose of adaptation and incorporation into an overall plan. On irrigation, the Ministry programme for the 5-year period envisages the construction of certain multipurpose projects, and of several major irrigation works. It also envisages programmes of medium-scale and minor irrigation works, a programme for the drainage and reclamation of low-lying land, a programme for the cultivation of subsidiary foodstuffs through lift irrigation and other means, as well as a programme for the procurement of machinery and equipment needed for these works.

There are several issues of relevance to the future programme of irrigation and development that are currently being assessed. One of the more general of these relates to the need for bringing about an improvement in water usage, management and control not only in new areas to be developed but in existing areas as well. A proposal is under examination for the formulation of a specific programme, possibly based on pilot projects in the initial stage, for improving water management and control—programmes in which both the Ministries of Land, Irrigation and Power and of Agriculture and Food would be closely involved.

On the more specific issues, special mention needs to be made of the future programme for the development of the Mahaveli Ganga Basin. A preinvestment survey of the Mahaveli Ganga Basin is currently being made as a United Nations Special Fund Project, and a feasibility report on the future development of the Basin is expected by the end of the year. It would at present appear that at least two major projects which would form part of a wider programme for the Mahaveli Ganga could be put under construction within the earlier part of the five-year period. If these possibilities are confirmed in the detailed feasibility study referred to, they might be included in the overall Five-Year Plan. The other major irrigation projects included in the Five-Year Plan would be evaluated from the point of view of relative benefits and costs and, in the case of some of them, from the point of view of their possible relationship to the Mahaveli Development Scheme.

The programme for subsidiary foodstuffs reflects the overall strategy of import substitution in agriculture and is therefore of very high priority. The programme is presently being reviewed with a view to bringing about a greater degree of concentration in terms of area than contemplated earlier. The drainage and reclamation programme is similarly one of relatively high priority in the light of the increases in output than it would make possible.

Table I depicts the several programmes in the Agricultural Sector for which provision has been made in the 1966/67 Budget. As shown the largest capital allocation under the Agricultural Sector has been given to the paddy programme. The total allocation for paddy is approximately Rs. 92 million. Out of this Rs. 32.1 million is on the programme for intensification of production. The balance investment is on the development of new lands under major and medium-scale irrigation projects. This, however, does not include the investment that is being made on paddy under multipurpose schemes in Gal Oya and Uda Walawe. When this is taken into account the total investment on the paddy programme will exceed Rs. 110 million.

TABLE I

SUMMARY OF PROGRAMMES IN 1966–67 BUDGET—AGRICULTURAL SECTOR

Programme	Sectoral Committee Proposals for 5-year period		1966–67 Budget	
	Programme	Investment Rs. Million	Programme	Allocations Rs. Million
1. Export Crops				
(i) *Tea*				
(*a*) Replanting ..	25,000 acres	92·5	5,000 acres	18·5 (Extra Budgetary Tea Subsidy Fund)
(*b*) New Plantation—State Plantation Corporation ..	2,000 acres	20·6	Continuation work	5·0
(*c*) Peasant Colonisation ..	11,500 acres, 5,750 allotments	49·0	1,500 acres	2·5
(*d*) Youth Settlement ..	10,000 acres	30·0	1,500 acres	3·2
(ii) *Rubber*				
(*a*) Replanting ..	100,000 acres	152·0	17,500	20·0
(iii) *Coconut*				
(*a*) Fertiliser Subsidy Scheme ..	250,000 tons	57·5	50,000 tons	10·0
(*b*) Seedling Distribution Scheme ..	100,000 acres, 6 mil. seedlings	4·5	20,000 acres, 1·2 m. seedlings	·9
(*c*) New Plantations				
Peasant Colonisation ..	40,000 acres, 8,000 allotments	66·6	2,000 acres	1·3
Youth Settlement ..	12,500 acres, 2,500 allotments	15·5	1,500 acres	1·8
(iv) *Cocoa* ..				·9
(v) *Citronella* ..				·8
			Total expenditure shall not exceed	46·0

2. **Paddy** ..	Increase in production—40 per cent 20 million bushels			
(i) *Increased Production from existing land*				
(*a*) Fertiliser Distribution ..	535,000 tons	116·0	85,000 tons	14·4
(*b*) Fertiliser Storage ..	Storage Capacity 38,500 tons 26 stores	5·5	25,000 tons	2·5
(*c*) Minor Irrigation ..	670,000 acres	47·0	110,000 acres	10·0
(*d*) Seed Paddy Scheme—Issue ..	200,000 bushels p.a.	2·7		·5
Storage ..	Storage Capacity 100,000 bushels	·6		
(*e*) G. P. S. Storage ..	800,000 sq. ft. Storage Capacity 8 million bushels	9·0	100,000 sq. ft.	2·5
(*f*) Pest and Weed Control ..				1·25
(ii) *Development of new land*				
(*a*) Major Irrigation Projects ..	53,000 acres*	130*		37·5
(*b*) Medium-scale Irrigation Projects	37,800 acres*	36*	Approximately 20,000 acres	
(*c*) Village Works ..	13,500 acres—new			
	36,000 acres—existing	25·5		
(*d*) Settlement of colonists—Land clearing, housing, civic amenities ..		124·0	Work based on Irrigation Programme	17·5
(*e*) Settlement of colonists—financial assistance ..		22.2		4·5
(*f*) Other Investments ..				1·5
			Total Expenditure shall not exceed	92·0

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* Excludes Irrigation schemes for the programme on subsidiary food crops.

TABLE I—(*Contd.*)

SUMMARY OF PROGRAMMES IN 1966–67 BUDGET—AGRICULTURAL SECTOR

Programme	Sectoral Committee Proposals for 5-year period		1966–67 Budget	
	Programme	Investment Rs. Million	Programme	Allocations Rs. Million
3. **Subsidiary Food Crops and Dry Farming**				
(i) Chillies	40,000 acres 400,000 cwts.	53·0	5,500 acres	5·0
(ii) Other Crops				1·2
(iii) Potatoes	8,500 acres 40,000 tons	3·6		·7
(iv) Other investments on machinery, agricultural stations, &c.				2·3
(v) Vegetables and Fruits—Distribution and canning				1·0
			Total	10·2
4. **Sugar Cane**				
Gal-Oya	6,000 acres	12·0	Extension of plantation	3·5
Kantalai	2,000 acres and buildings	10·0	Extension of plantation	3·5
			Total	7·0
5. **Cotton**				1·4
6. **Multi-Purpose Schemes**				
(i) Gal-Oya	10,700 acres—paddy Reclamation of 6,000 acres—paddy, 19,000 acres—High-land crops	27·35	Continuation Work	18·0

(ii) Uda Walawe	36,500 acres—paddy 6,200 acres—sugar 2,000 acres—citrus 15,000 acres—cotton	373·0	Continuation work on Headworks and Main Channel	15·0
(iii) Land Reclamation	20,000 acres out of a total of 50,000 acres	21·0 out of a total of 40·0		2·0
			Total	35·0
7. Forestry				
(i) Regeneration	74,000 acres		21,000 acres	3·0
(ii) Roads and Buildings	60 miles	20·4	20 miles	·8
(iii) Other investments				1·2
			Total	5·0
8. Milk				
(*a*) Condensed Milk Project	12,500,000 lbs.	6·5	Continuation works	2·9
(*b*) Distribution of Milk Sterilising Plant and equipment buildings		3·7	Continuation works	3·0
(*c*) Cattle Farms and Dairy development	9,500 cattle 80,000 pints per day	25·0	3,000 cattle and extension service	9·1
(*d*) Spray Drying Plant	2·4 million lbs.	2·8		
			Total Expenditure will not exceed	13·9
9. Meat (Beef and Mutton)				
Improvement of herds	432 cattle	2·5		·45
10. Other investments in the Agricultural Sector—Survey, Land Acquisitions, Meteorology, Nutrition Projects, Buildings, Transport, &c.				8·0
			Grand Total	219·

The investment in 1966/67 in existing paddy land is part of a programme of activities which has as its objective a 40 per cent increase in the output of paddy; domestic production is expected to increase from 50 million bushels a year to approximately 70 million bushels in 1970. Government expenditure and effort will be concentrated to increase the input of fertiliser, extend the use of high-yielding strains and better cultural practices, improve irrigation facilities at the village level, facilitate the flow of rural credit and increase the intake of paddy under the Guaranteed Price Scheme, all designed to increase yields and raise the level of productivity on existing paddy land. The fertiliser use is expected to increase to 85,000 tons, compared to 70,000 tons in 1965/66. The Government's effort will be supplemented by the release of foreign exchange to the private sector for imports of agricultural equipment and tractors to extend the mechanised cultivation of paddy, as well as for imports of pesticides, weedicides and spraying equipment for the more effective control of pests and plant disease. The increase in output of paddy at the end of 1966/67 is estimated by the Ministry of Agriculture and Food at approximately 3 million bushels, on existing paddy land.

The development of new land for the cultivation of paddy under major and medium-scale irrigation projects will be accelerated during 1966/67. The investment in 1966/67 is a segment of a five-year development programme which expects to bring under cultivation 60,000 acres in 16 major irrigation schemes, 40,000 acres in medium-scale irrigation schemes, and 13,000 acres in village schemes, while providing better irrigation facilities for 36,000 acres under the village schemes. Approximately 90 per cent of the programme in respect of major and medium-scale irrigation schemes consist of continuation works; the allocation in 1966/67 is designed to expedite the completion of these works so that the full benefits of the heavy investment already made will be realised as speedily as possible.

This programme of settlement will supplement the programme of intensified production and will serve as one of the main outlets for the annual increment to the rural work force. However, much has yet to be done to use these new settlements as a means of transforming the traditional subsistence agriculture into a new form of agricultural activity and land management, modern in outlook and capable of raising the level of agricultural incomes. This aspect is receiving the urgent attention of the Government, particularly as the agricultural occupation has to be rendered sufficiently attractive to retain the increasing number of rural educated youth in the agricultural sector, and to increase agricultural productivity.

Under the multi-purpose schemes Rs. 35 million has been allocated for the Gal Oya, Uda Walawe and Land Reclamation Scheme. The investment of Rs. 18 million in Gal Oya will be the first instalment in a 3-year programme for the residual development in the Gal Oya Valley after which the River Valleys Board will withdraw from Gal Oya and will be replaced by the normal

Government administration. The 3-year programme envisages the development of approximately 10,800 acres of paddy. In Uda Walawe which envisages the development of 60,000 acres and generation of 5,400 K.W. of electricity, work will continue on the head works of the reservoir and the main channel system for distribution of irrigation facilities. Plans for the development of Uda Walawe provide for a diversified agriculture which will include sugar cane, citrus, cotton and paddy. The Government is examining the possibility of improving the pattern of colonisation under this scheme in order to create conditions for the growth of a more modern and advanced type of peasant agriculture.

The investment on land reclamation in the 1966/67 budget is the first instalment of a major multipurpose land reclamation scheme which will reclaim approximately 25,000 acres over a period of 5 years. The tentative cost estimates of this scheme compare very favourably with the land development schemes under new irrigation works. The location of the scheme, its proximity to more developed areas, and its linkage with other programmes such as housing, fisheries, flood protection, waterways, make it a project with a rich potential for diversified development. The Government therefore plans to accelerate the implementation of this project.

Investigations on the Mahaweli Diversion Scheme carried on as a U.N. Special Fund project will be continued next year. According to the initial project studies this scheme will command an irrigable extent of 520,000 acres and generate 350 M.W. of power. Both in its potential for development and the scale of investment, it far surpasses any single project hitherto undertaken, and will dominate development activities during the period of its implementation. As it will impinge on numerous other programmes of development and will have a decisive influence on present irrigation plans and policies, the basic decisions regarding the implementation of this scheme need to be taken early. The feasibility of implementing the scheme in economically viable stages on a scale of investment in proportion to available resources, is now being studied.

During 1966/67 a sum of approximately Rs. 9.3 million will be spent on subsidiary food crops and dry farming. A portion of this investment will be the annual component of the programme to make the Island self-sufficient in a number of subsidiary food crops such as chillies, potatoes, onions etc. The lift irrigation project, particularly those parts of it which will include highland allotments of colonisation schemes, will introduce a new element into the agricultural activity in these settlements, and increase the economic potential of these schemes rendering them more viable. A successful start has already been made on this programme during the current financial year. An extent of 40,000 acres is needed for the production of the present requirements of chillies and onions. A three-year programme for potatoes has also been initiated.

A sum of Rs. 6.5 million will be invested on developing new land for the cultivation of sugar cane at Gal Oya and Kantalai. When this programme is completed the 2 Sugar Factories will be producing at full capacity and will increase output from the present 8,000 tons to 51,200 tons. This programme will rectify the inadequate and faulty planning of the agricultural aspects of the sugar project which have led to the under-utilisation of the 2 factories since commencement of production.

The investment on the **milk** programme in 1966/67 will be part of an effort for the domestic substitution of imported milk–foods amounting to approximately 24 million rupees. On the dairy development and milk programme, the Government will invest approximately Rs. 11 million which will include the Sterilising Plant, the Condensary at Tamankaduwa, and the import of cattle. The condensary will be completed before the end of the next financial year. Approximately 3,000 buffaloes will be imported from Pakistan and India for the cattle farms that will be established at Tamankaduwa both by the State and the private sector. The investment on the cattle farms will be part of a programme for the expansion of the herd to approximately 8,000 cattle to meet the full requirements of milk for the condensary. A sum of Rs. 3.5 million will be spent to increase the herds in the up-country cattle farms in Bopatalawa and Ambawela which will eventually make possible the establishment of a Spray Drying Plant. A start will be made on dairy development in coconut lands to augment the supply of fresh milk to Colombo and other urban areas.

An allocation of Rs. 5 million has been made for the **forestry** programme which will include regeneration operations in approximately 21,000 acres and the provision and improvement of transport for more efficient extraction of timber. The development of forestry is being accelerated to meet the increasing demand for the supply of timber particularly in the construction industry which will rapidly expand as a result of the new investment programme during the next few years.

The capital budget of 1966/67 has provision in a sum of Rs. 46 million for the development of **export crops**. The investments on the export crops programme for 1966/67 will be part of a major development programme in the tea, rubber and coconut industry phased over a period of five years. Under this programme it is tentatively estimated that the output of tea will eventually increase by approximately 120 million pounds, the annual output of rubber by 30,000 tons and the output of coconut by 400 million nuts when replanted as well as new land become fully productive. The additional foreign exchange earnings after adjustment for shortfalls will be approximately Rs. 370 million.

The budgetary allocation of Rs. 46 million, does not include the extra budgetary expenditure on the tea replanting scheme which will be approximately Rs. 18.5 million, and will be met from the Tea Subsidy Fund. The acreage authorised for replanting in 1966/67 will be approximately 5,000. and the financial commitment out of the Fund, Rs. 18.5 million. This investment will be part of a programme of replantation of 25,000 acres over a period of 5 years on a financial commitment of Rs. 92.5 million.

The investment on the rehabilitation of tea machinery which will be undertaken by the private sector is intended as part of the recapitalisation programme which will increase and improve the capacities of installed plant and equipment in the tea industry to handle the increasing production.

The replanting scheme for **rubber** has been revised to act as a more effective inducement to the private sector to undertake replanting operations on rubber land. The next year's investment of Rs. 20 million is part of a 5-year programme to accelerate replantation of rubber land which has declined in recent years and to achieve a target of 100,000 acres during this period.

In regard to **coconut** the allocation for the next year for the fertiliser subsidy scheme will continue the existing programme on a more systematic basis. The seedling distribution scheme will be responsible for the issue of planting materials sufficient for the rehabilitation of approximately 20,000 acres of coconut land. The investment on these schemes will increase from Rs. 11.0 million in the current year to Rs. 12.6 million in the coming year.

In the development of new land for both export crops and domestic agriculture, the Government has launched on a new programme relating to the employment of educated youth. **Youth settlement schemes** have been started in various parts of the country for the development of new land for cultivation of subsidiary food crops, tea, coconut, paddy and livestock farming. These schemes are as yet at an experimental stage and the new patterns of farming, holdings etc., have not been finally evolved. The objective of introducing a new and more dynamic element into agriculture through the youth settlement schemes would have to be kept firmly in mind if these are not to lapse into the traditional subsistence pattern of agriculture, supporting a low income peasantry. The peasant and youth schemes in export crop agriculture are, like the settlements in irrigation schemes, part of the employment intensive segment of the programme.

(*b*) Industry

The investment allocation for industry during 1966/67 is part of a systematic effort at achieving greater self-sufficiency in a number of major commodities. These include textiles, salt, cement, plywood, fertilisers, ceramics, paper board, steel, petroleum products, tyres and tubes and cast iron products.

In many of these areas, the investment is being designed to meet the needs imposed by the expansion of output in other sectors. Thus the cement programme is linked to the expansion of constructional investment that is envisaged; the fertiliser programme to the demands imposed by the agricultural sector. Within the industrial sector decisions have taken account of technological inter-relationships as, for instance, the provision of a by-product of the petroleum refinery as an input into the fertilizer industry. It need hardly be said that the maintenance of self-sufficiency once achieved in any of these areas depends on an adequate forward planning of investments to keep pace with the increasing demands imposed on them by the sectors they serve.

The other guiding principle in the allocation of investment is the emphasis on the further processing of raw materials domestically available. In some cases such as ceramics and tyres, this will initially be guided by the need for import substitution. But this does not exclude a fairly rapid development of an export potential once the requisite design and quality standards have been established. Indeed distinct possibilities for export exist for products manufactured in a number of industrial projects for which allocations have been made in 1966/67. These include leather goods, plywood and chipboard, tyres and tubes, ceramic ware, cement and salt. The export potential in neighbouring markets as well as markets in the socialist bloc could be successfully explored through barter agreements, payments arrangements, etc.; these possibilities will be vigorously pursued. In some cases rutile and zircon—the domestic processing of mineral sands will cater to an export market from the outset. But, by and large, it is safe to say that in those items which would expect to find a sophisticated international consumer market, an initial orientation towards the domestic market would be necessary pending the development of those skills necessary for competing abroad. Eventually, of course, this international market should prove decisive in enabling production at optimum costs in a number of areas where the domestic market is too small.

Table II summarises the industrial programmes included in the 1966/67 Budget. The allocation for the industrial sector, excluding Fisheries, will be Rs. 142 million which is approximately Rs. 47 million more than in the current financial year. The programme for the next year will include investments on several major continuation projects, such as the Puttalam and KKS cement projects, the Steel project, and the Tyre and Tube projects. Work will commence on a number of new projects which will include the initial stage of a Fertiliser Factory, an integrated Textile Mill, a second Plywood factory, a Chipboard factory, a second kiln at the Puttalam cement factory, a Paper Board factory, a Cast Iron Foundry, a Tannery and an Insulator Unit in the Ceramic factory at Negombo. In addition, the Petroleum Corporation will commence work on the construction of an Oil Refinery and a Lubricants Blending Plant from funds out of the Corporations development reserve. The initial investment on these two projects for the next year will be Rs. 26.5 million.

The cement programme envisages the production of approximately 475,000 tons of cement in 1969, and 700,000 tons in 1971. The total Government capital investment on this programme over the five-year period will be approximately Rs. 212 million. It will also begin work on a Packing Plant in Colombo to rationalise and reduce costs in handling and distribution.

The second Plywood factory will step up the capacity from the present capacity of 35 million sq. ft. to 75 million sq. ft. by the beginning of 1968, to meet the Island's entire requirements. This would require an investment of Rs. 15 million. The Chipboard Plants will convert the waste of the plywood factories to boarding for use on furniture, doors and windows, etc. and introduce much needed economies into the manufacture of plywood.

TABLE II

SUMMARY OF PROGRAMMES IN 1966-67 BUDGET—INDUSTRIAL SECTOR

Programme	Sectoral Committee Proposals for 5-year period		1966/67 Budget	
	Programme	Investment Rs. Million	Programme	Allocations Rs. Million
INDUSTRIES				
(i) Textiles—				
Large Scale ..	40,000,000 lbs. 24,000,000 yds.	246·7	Integrated Textile Mill work to commence, 2nd Textile Mill—Continuation work	3·5
	135,000,000 yds. of Finishing 2,400	24·8	Continuation work	
Medium Scale ..	22 million yds.	9·0	do.	6·85
Small Scale ..	20 million yds.			6·9
(ii) Cement ..	615,000 tons (including KKS Expansion)	212·0	Completion of KKS Expansion and Galle Grinding Plant. Continuation work on 2nd Factory—Puttalam. Commencement of work on 2nd stage Puttalam and Colombo Packing Plant	35·0
(iii) Wood based Industries—				
(a) Plywood ..	40,000,000 sq. ft.	15·0	2nd Plywood Factory	3·0
(b) Chipboard ..	280,000 cu. ft.	4·0	Gintota Chipboard Factory	4·0
(c) Furniture ..				·3
(iv) Paper ..	9,000 tons paper board	18·0	Valaichchenai Paper Board	8·4
(v) Ceramics ..	300 tons insulators	2·5	Insulator Unit and additional Kiln, Negombo	3·2
	Ceramic Ware—160 tons			
(vi) Tiles ..	3 million Tiles	4·3	Tile Factory	3·0
	15 million Bricks		Brick Factory	

TABLE II—(*Contd.*)

SUMMARY OF PROGRAMMES IN 1966–67 BUDGET—INDUSTRIAL SECTOR

Programme	Sectoral Committee Proposals for 5-year period		1966/67 Budget	
	Programme	Investment Rs. Million	Programme	Allocations Rs. Million
(vii) Cast Iron Foundry ..	8,000 tons	16·0	Major portion of the work will be completed	8·0
(viii) Steel ..	60,000 tons	29·0*	Completion of work	19·5
(ix) Tyre ..	250,000 tyres and tubes	14·0*	Completion of work	6·0
(x) Salt ..	60,000 tons		Expansion of Elephant Pass, Puttalam Salterns. Investigation of Jaffna Lagoon Scheme	3·8
(xi) Salt-based Chemical Industry—Chlorinated Rubber ..	400 tons	5·1		
(xii) Leather—Tanning ..			Tannery	1·5
(xiii) Fertiliser ..	220,000 tons ammon sulphate 44,000 tons Urea	190·0	Commencement of work	15·6
(xiv) Fuel Oils, and Lubricants Refinery ..	1,700,000 tons (through put)	112·0	do.	23·0 (Extra Budgetary)
Blending Plant ..	22,000 tons	3·7	Major portion of the work will be completed	3·7 do.
(xv) Flour Milling ..	50,000 tons	10·5	Continuation	3·7
(xvi) Construction—State Engineering Corporation				9·0
(xvii) Coir ..				·35
(xviii) Mineral Sands ..	Rutile 10,500 tons, Zircon 9,000 tons.	3·5	Completion of work	2·0

* Figures relate to investments proposed by the Sectoral Committee for the period 1965/66–69/70 ; they do not include expenditure incurred on continuing projects prior to 65/66.

(xix) Distillery ..			Expansion	1·4
(xx) Vegetable Oils and Fats ..			Replacements	2·1
(xxi) Industrial Promotion and Research—				
(a) Industrial Estate ..	400,000 sq. ft. of Factory space	9·0	3rd stage	1·0
(b) Small Industries Services Institute				·8
(c) Industrial Development Board ..		1·0		·75
(d) Investigations and Research ..				2·5
			Expenditure shall not exceed	142·0
FISHERIES				
Boats ..	†	†	11–80 ton boats 81 Nos. committed 48 New—33. Tuna Boats—2 Nos. Trawlers—2 Nos. Long liners—1 No. Mechanisation of existing craft	15·5
Harbour, Shore Facilities ..			Continuation of work on Galle, Mirissa, Tangalle and Beruwala Harbours. Work on 3 more Harbours to commence	21·250
Brackish Water Fisheries ..			Work on Brackish Water Fisheries (500 acres) to commence	2·0
Marketing ..			Establishment of Wholesale Markets	1·5
Gear Factory, Boat-yards ..			Continuation of work on Boat-yards and commencement of work on Gear Factory	2·3

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† Targets in the Corporation's 10-year Plan have to be revised and a phased programme prepared.

TABLE II—(*Contd.*)

SUMMARY OF PROGRAMMES IN 1966-67 BUDGET—INDUSTRIAL SECTOR

Programme	Sectoral Committee Proposals for 5-year period		1966/67 Budget	
	Programme	Investment Rs. Million	Programme	Allocations Rs. Million
Communications—Navigational and Fishing Aids				
Research—Vessel, Equipment, etc. ..			Procurement of Research Vessel	2·0
Training and Research Training Centre ..			Commencement of work on Training Centre	
Other Items—Stores; Office equipment ..				3·7
			Total Expenditure shall not exceed	43·0

The **Fertilizer Plant** which will cost approximately Rs. 190 million will produce the equivalent of approximately 61,000 tons of nitrogen on a product pattern suited to domestic needs. On completion it will supply the major portion of the country's requirements.

The **Paper Board** Plant costing Rs. 18 million approximately will produce 9,000 tons of paper board and supply the country's entire requirements.

In **Salt** the programme already undertaken will increase the production of salt to approximately 100,000 tons, and will meet the total domestic demand in 3 years. Engineering surveys have been undertaken for a new programme of salt development in the Jaffna Lagoon, for the production of approximately 100,000 tons of salt, phased in two stages ; this project will be co-ordinated with the growth of other salt-based chemical industries, and will be finalised after a more comprehensive evaluation of a project complex including soda ash, caustic soda, glass, etc.

The **Petroleum Refinery** which will require an investment of Rs. 112 million will have an output of 1.5 million tons of petroleum products related to the local demand pattern, and would supply almost the entirety of the country's requirements of gasoline, diesel oil, furnace oil, kerosene, etc.

In the **Textile** Industry the largest gaps in domestic capacity are in spinning and finishing. Capacity for production of approximately 25,000,000 lbs. of yarn and finishing of 110,000,000 yards of cloth has to be installed to meet the needs of the expanding powerloom and handloom sectors alone. Work on a new integrated textile mill is expected to commence next year. Work on the second Textile Factory will continue during the coming year. A further expansion programme on the Textile Industry, to close the gaps in spinning and finishing capacities and create additional weaving capacity has been prepared. Token provision for this programme has been made in the 1966/67 Budget. A sum of approximately 13 million Rupees has been provided in the 1966/67 Budget for the continuing project for medium-scale and small-scale expansion of the Textile Industry with the powerloom and handloom units. The total estimated output from these units will be 42 million yards on an investment of Rs. 34.7 million.

Two projects for export oriented Industries have been included in the 1966/67 Budget. One is for manufacture of chlorinated rubber designed to utilise the surplus chlorine in the Paranthan Caustic Soda Factory and render it economical, besides producing foreign exchange earning commodity. The other is for the processing of rutile and zircon from the mineral sands. Token provision has been made in the Budget for the chlorinated rubber project. Work on the rutile and zircon project is in progress and will be completed in 1967. The rich industrial potential of the mineral-based industries which include ilmenite and monazite has yet to be systematically investigated, and projects for the fuller exploitation of this potential will receive high priority in the future.

The investments contemplated in public sector industry will have to be accompanied by considerably greater attention to the possibilities of profitable production than in the past, if they are to make any significant contribution to overall economic growth. One of the critical variables determining the projected public savings effort indicated in the framework outlined earlier is the level of budgetary grants to public corporations. Given the probable magnitude of borrowing, the revenue surplus required to finance the capital budget is smaller, the lower the level of grants to corporations. It is only by attention to national pricing and production policies that public corporations can hope to free themselves from dependence on grants from Government by accumulating sufficient reserves to finance their expansion. In the absence of such measures not only will corporations be a drain on public funds, but the possibility of their makinga contribution to Government revenue is minimised.

It is not possible in this kind of general review to specify in detail the changes required to achieve the objectives outlined above. Pricing of public services at levels justified by economic rather than social service considerations is indicated in many cases. A committee to review the pricing policy of Government corporations has recently examined and reported on these questions. Ultimately success will not be possible unless commercial standards of management are introduced into the corporations. This would involve not only the recognition that management is a distinctly professional activity for which the requisite training and preparation is necessary, but also a revamping of salary and organisational structures so as to elicit the maximum possible productive effort. A beginning is being made in next year's budget by providing for a Management division in the Ministry of Industries. This will help in the establishing of minimum managerial standards for corporations and in developing a pool of managerial talent. Ceylon's membership of the Asian Productivity Association will bring futher facilities for the training of business executives primarily in the private sector. In addition, Ceylon has submitted a request to the U. N. Development Programme for a Special Fund Project on Management Development and Productivity which will further expand training facilities in the industrial sector.

The outline above relates to industrial investment in the public sector. Growth in the public sector will be supplemented by expansion in the private sector which even now accounts for two-thirds of the industrial production. Several steps have already been taken to stimulate private sector industry. The budgetary allocation for 1966/67 includes a larger investment on industrial research and on servicing agencies to the private sector such as the Industrial Development Board and the Industrial Estates Corporation. The establishment of the Industrial Development Board is designed to co-ordinate the various agencies such as the Small Industries Services Institute and the Industrial Estates Corporation in order to promote industrial effort in the private sector. The Ceylon Institute of Scientific and Industrial Research will commence work on a clearly defined programme of work related to the industrialisation programmes in the private and public sectors.

In addition, steps to increase the resources available to the Development Finance Corporation are being actively examined, whilst machinery has been set up to examine and approve proposals for private foreign investment. A Customs Advisory Committee has been established to consider, among other things, several aspects of the relationship between import duties and industrial development. Most important of all foreign exchange allocations to industry have been substantially increased. The scheduling of foreign exchange availabilities over a long period for industrial development in both the public and the private sector will become an increasingly important part of the overall planning process.

In regard to **Fisheries**, an investment of approximately Rs. 43 million has been approved for the coming year, an increase of approximately Rs. 4 million over the net provision for the current year. This investment is a part of a co-ordinated programme of development in the fisheries sector including harbours, fishing craft, manufacture of fishing gear, brackish water fisheries, marketing, training and research. The scale of investment that is now proposed is appreciably less than what was proposed in the original 10-year plan of the Fisheries Corporation, which set a target of 680,000 tons of fish at the end of the Plan period, with an average annual investment of Rs. 150 million. But the proportions of investment now approved if sustained over the next 5 years, will be capable of more than doubling the output of fish to over 200,000 tons. In the revised programme of fisheries development, a greater emphasis would have to be given to the fishing programme for the continental shelf, and the mechanisation of existing craft, as the investment on this programme will yield quicker results and bring a higher return including greater foreign exchange savings per unit of investment than the programme on deep sea fishing. Therefore the original plans for the heavy investment on deep sea fishing would be scaled down. However, it is essential to sustain a steadily rising flow of investment on the fisheries programme as a whole. Experts who have examined the programme have confirmed that it is one of the best that could be developed in Ceylon at the present time and could have a significant impact on output and foreign exchange earnings.

(*c*) Economic Overheads

Whilst development strategy over the next five years will lay emphasis on expansion of agriculture and industry, as outlined earlier, it would be necessary to ensure that Ceylon's economic overheads, i.e. transportation system, power facilities, ports and harbours etc., keep pace with requirements of general economic growth. This objective is reflected in the long-term programme for this sector and in the provision made in the 1966-67 Budget.

Table III contains a summary of investment in this sector for 1966-67. In the case of Power there will be an expenditure of approximately Rs. 24 million on the last stages of hydro-electric scheme stage II and the 2nd Thermal

TABLE III

SUMMARY OF PROGRAMMES IN 1966-67 BUDGET—ECONOMIC OVERHEADS

Programme	Sectoral Committee Proposals for 5-year period		1966–67 Budget		
	Programme	Investment Rs. Million	Programme	Allocations Rs. Million	
1. Power					
(*a*) Hydro Electric Stage II B ..	Completion of balance work	60·0	Completion of balance work		
(*b*) Thermal 2nd Set ..	Completion of balance work	8·0	Completion of balance work		
(*c*) Maskeliya Stage I ..	75 M. W.	171·0	Continuation		
(*d*) Maskeliya Transmission Lines ..	500 Miles	116·0	Continuation	64·0	
(*e*) Maskeliya Stage II and III Investigations	Work on new scheme to be started	-	Investigations		
(*f*) Rural Electrification ..	500 villages	37·5	Continuation	6·0	(Extra Budgetary)
				64·0	
2. Transportation					
(*i*) *Railway*					
(*a*) Dieselization ..	87 Diesel Locomotives	53·0	Part procurement of equipment	6·0	
(*b*) Continuation Works ..		82·8	Continuation	19·5	
(*c*) New Works	Extension of colour-light signalling, Heavy rails for Trincomalee-Batticaloa line, Fort Terminal Building, Improvements to Railway Stations and Yards		Work to commence	9·0	
				34·5	

(ii) *P. W. D. Roads and Bridges*				
(a) Rectification of defects—Roads and Bridges	Implementation of Wilbur-Smith Programme	83·5	Work to continue	17·0
(b) Pre-mix surfacing of roads ..	450 miles	45·0	60 miles	9·0
(c) D. R. C., P. R. C and Minor roads	Continuation of annual programme		Continuation	6·0
(d) Continuation works			Continuation	6·3
(e) New Plant and ..			Procurement of equipment	5·0
(f) Other Investments ..				2.8
(g) Roads, culverts, etc.—construction by Kandyan Peasantry Commission ..				3·7
			Expenditure shall not exceed	31·5
(iii) Civil Aviation				
(a) Airways Communication ..	Improvements	18·4*	Completion of major portion of work	2·2
(b) Katunayake Airport ..	Completion of Terminal Building			28·0
(c) Airport Development ..	Improvements			·65
				30·6
(iv) Ports				
(a) Improvements to existing facilities and provision of new facilities ..		17·2		9·8
(b) Technical Development of Colombo Harbour ..		18·2		2·6
(c) Trincomalee Harbour ..		2·6		·4
(d) Galle Harbour ..		21·0		4·2
(e) K. K. S. Harbour ..		25·1		2·0
(f) Other Investments ..				1·4
				20·4

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*These Sectoral Committee Estimates require revision.

TABLE III—(*Contd.*)

SUMMARY OF PROGRAMMES IN 1966-67 BUDGET—ECONOMIC OVERHEADS

Programme	Sectoral Committee Proposals for 5-year period		1966/67 Budget	
	Programme	Investment Rs. Million	Programme	Allocations Rs. Million
(v) Posts and Telecommunication				
(*a*) Greater Colombo ..			**Completion of work**	**7·6**
(*b*) All-Island Dialling Scheme ..		**72·5**	**Commencement of work**	**·1**
(*c*) Overseas Telecommunication—Improvements		**34·**	**Part of Sectoral Commitee programme**	**2·0**
(*d*) Overseas Telecommunication—Sea Communication Cable		**9·0**		
(*e*) Postal Buildings ..		**10·3**	**Continuation work**	**7·7**
(*f*) Telecommunication Services Development			**Continuation work**	**3·0**
(*g*) Other Investments ..				**1·4**
				18·01
			Grand Total	**199·01**
(vi) Other Overheads				
Administration Building ..				**13·0**
Other Buildings ..				**9·4**
Defence ..				**10·7**
Tourism ..				**3·0**
				36·1

project at Grandpass. The major portion of the investment in the coming year will be on the Maskeliya Oya Stage I project and Maskeliya Oya Stage I transmission. According to the forecast of power needs of the country the Maskeliya Oya Stage I project will meet the demand for power up to 1972. For further power development, a decision has to be taken after a study of the relative advantages of the Samanalawewa project and the Maskeliya Oya Stages II and III. Detailed investigations of Maskeliya Oya Stages II and III will be undertaken during the coming financial year. In regard to additional power requirements in the future, the Mahaveli project will make a substantial contribution. The Government will also continue the rural electrification project on which it hopes to make an investment of approximately Rs. 6.5 million obtained from the Reserve Extensions and Renewals Fund.

The capital investment on **Railways** during the coming year will be approximately Rs. 34.5 million. Apart from investment on the replacement and modernisation of rolling stock, the extension of colour-light signalling and continuation projects such as the extension of the railway line to Arakalu, the major project for the next year is the railway Dieselisation programme. This programme provides for the purchase of 87 diesel locomotives which will replace 203 broad-gauge steam locomotives. The total estimated cost of the project is Rs. 53 million. The purchase and delivery of these locomotives will be completed in 1967 and 1968. The next-year's capital budget provides for the payment of the first instalment on the equipment which will be purchased on supplier's credit. The dieselisation programme will effect a saving of approximately Rs. 10 million a year in foreign exchange and will result in a substantial reduction in the losses now sustained by the Railway in its operations. If the full benefits of the new investments are to be obtained, they will have to be simultaneously supported by various organisational measures which among other things, will improve the present costing methods and principles and rationalise freight rates for carriage of goods. Such an exercise offers scope for improvement of the competitive position of the Railway in regard to long distance haulage, resulting in a better distribution between rail freight and road transport, with immediate benefits both to the Railway as well as to the economy as a whole. Arrangements will be made in the coming year to equip the Railway Department for this task.

In regard to **Roads** the need is more for an expanded programme for improvement and modernisation of maintenance, rather than for an extension of the existing network through new road construction. The allocations that has been made in the past have been totally inadequate for the efficient maintenance of roads. The resultant restraints have led to a serious deterioration in our transportation assets in regard to road traffic, and placed an unnecessary burden on maintenance of transport equipment. Therefore, a substantially higher maintenance allocation under Vote 6 for the year 1966–67 has supplemented the investment on the other capital works on roads and bridges. At the same time the Government proposes to engage consultants to prepare a Highway Master Plan, the Highway Maintenance Study and a Plan for the improvement and reorganisation of the planning, design, construction and administrative sections of the P.W.D. in accordance with the recommendations made by the I.B.R.D. Mission.

The capital stock in road transport had suffered further deterioration owing to the restriction on import of commercial vehicles; it is planned to remedy this through higher exchange allocations. In case of road passenger transport, a long-term programme of development of the C.T.B. is being reviewed particularly with a view to assessing the scope for external financing.

On **Civil Aviation**, the Government will spend approximately Rs. 30.6 million during the coming year. The major portion of this investment will be on the Katunayake Airport terminal building. A small investment will be made on the improvement of the airways communication system, and equipment for aerodrome landing ground etc.

On **Port development**, excluding fisheries harbours a capital expenditure of approximately Rs. 20 million will be incurred in 1966-67. Of this approximately Rs. 15 million will be on the development and improvement of the Colombo Port. The improvements include an increase in pilotage facilities with an investment of approximately Rs. 3.5 million, better cargo handling facilities on which a sum of Rs. 1 million will be spent, and floating craft and mooring equipment at a cost of Rs. 1.3 million. The technical development project for the port of Colombo which is estimated to cost about Rs. 37·5 million and is based on the recommendations of the Nedeco Report, will account for an expenditure of Rs. 2.6 million during the coming year. Provision has also been made for commencement of work on the K.K.S. harbour and the construction of the main break-water in Galle harbour. For these 2 items a sum of Rs. 5 million has been allocated. The development of the K.K.S and the Galle ports were originally envisaged as part of the programme of expansion of the cement industry. With the modification in the cement programme the development of the K.K.S port may not be of immediate importance to the cement industry ; but such considerations as the development of the outlying ports and the diversion of traffic to these ports resulting in the growth of new commercial centres, reduction in the inland transport and the avoidance of excessive concentration and dependence on a single major port, support the development of these two ports. The Government also proposes to undertake in the coming year a more comprehensive investigation of port and harbour development for the future, and the place of coastal traffic in transportation.

On **Posts and Telecommunications**, the next year's budget has allocated a sum of Rs. 18 million. This includes an investment of Rs. 7 million on the final stages of the development of telecommunication services in Greater Colombo. A sum of Rs. 3 million has been provided for the development of other telecommunication services. A project has also been formulated for the all-Island dialling scheme which is estimated to cost Rs. 102 million. The project is phased in 3 stages and it is estimated that during the period 1967 to 1970 approximately Rs. 72·5 million would be needed.

(*d*) Social Services

Although the claims for outlays on the social services have to be assessed in the light of requirements for productive investment in other sectors of the economy, the capital budget for 1966-67 has made provision for this sector, without any sacrifice of essential requirements for health, education, housing etc. The total allocation of Rs. 121 million for 1966-67 represents an increase over that of the previous year. Investments are being contemplated to improve existing standards in respect of hospital accommodation and arrive at a desirable norm. In regard to housing, long-term programmes aim at meeting the needs of a growing population. Government responsibilities in the field of low cost housing, specially in the Colombo suburbs are being stepped up ; measures are being taken to facilitate private sector investment on a substantially greater scale than in the past. In education, plans are under way to reshape the present educational structure in such a manner as to meet the technological needs of a developing economy. Table IV gives a distribution of the programmes in this Sector.

The investment on **Health** in respect of Curative Services during the coming year will be part of a programme to meet the additional needs of a growing population as well as improve the existing facilities. It has been estimated that facilities will have to be provided annually for an additional bed strength of about 2,500 during the next five years to maintain a minimum bed strength of 3.2 per thousand of the population.

On the preventive services the Government will spend approximately Rs. 13.5 million during the coming year. Rs. 1.2 million will be spent on a programme of work for the expansion of Ayurvedic medical services which will include additions and improvements to the Central hospital and new district Ayurvedic hospitals.

On **Education,** the investment during the coming year while catering to the increment of school-going population will concentrate on the essential replacements and improvements of the existing facilities in regard to general education. On technical education, the investment during the next year is approximately Rs. 3.6 million. However, the present level of investment on technical education will not be adequate to meet the increasing demand for skills in the different sectors of the economy. The technical education programme includes the establishment of a college of technology, a college of commerce, expansion and re-equipment of the Ceylon Technical College and the establishment of an additional Junior Technical School. The programme drawn up by the Sectoral Committee envisages a rising volume of investment on technical education over the next 5 years aggregating to Rs. 83 million. An adequate programme of technical education would have to be prepared on a more informed basis derived from a comprehensive survey of existing manpower resources and facilities for development of skilled manpower, as well as a reliable forecast of skill demand arising out of the overall development of the economy.

Table IV

SUMMARY OF PROGRAMMES IN 1966-67 BUDGET—SOCIAL SERVICES

Programme	Sectoral Committee Proposals for 5-year period		1966/67 Budget	
	Programme	Investment Rs. Million	Programme	Allocations Rs. Million
1. **Health**				
Curative Services—				
Western ..	7,000 beds	109·4	Buildings and equipment	22·5
Ayurveda ..	6 District Hospitals and addition and improvements to existing Institutions	14·2	Extension to General hospital and commencement of work on new hospitals	2·0
Water Supply and Sewerage ..	18 Continuing schemes 22 New schemes	21 115		13·7
			Expenditure shall not exceed	29·8
2. **Education**				
Higher ..	Universities, Junior University Colleges, Higher Technical Institutes	37·5	Dr. Mary Rutnam Teaching Hospital, improvements and additions to University of Ceylon, Vidyodaya, Vidyalankara, and College of Technology	7·7
General ..	Schooling facilities 1·2 million additional pupils 3·3 per cent replacement of existing buildings and equipment. Diversification of Curriculum	283·8	Construction of permanent buildings, extensions of existing buildings, equipment etc.	31·1

Technical ..	4 Polytechnics, 25 Junior Technical schools, College of Commerce. Expansion of facilities in existing institutions	80·0	Continuation work	4·9*
			Expenditure shall not exceed	40·1
3. Housing				
National Housing Department ..	29,000 Housing units	320·0	Continuation work on Ratmalana, Wanathamulla and Anderson Golf Link schemes for working class and middle class houses.	
			Loans Commencement of new schemes for 5,000 housing units	15·0
Housing ..	Departmental quarters, etc.	224·0	Part of Sectoral Committee Programme	9·2†
Village Expansion Housing ..	15,000 units	15·0		6·0
			Expenditure shall not exceed	27·3
4. Local Government				
(i) Grants to local authorities for Village works, sewerage, public amenities				10·8
(ii) Loans to the local loans and development fund				5·0
				15·8

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* Includes investment on Ayurvedic Medical College, Co-operative Education Services ,Vocational Training Centres, etc.

† Includes Local Government housing, slum clearance, and construction of quarters by Government Departments. Excludes colonists' cottages constructed by Director of Land Development and River Valley Development Board.

TABLE IV—(*Contd.*)

SUMMARY OF PROGRAMMES IN 1966-67 BUDGET—SOCIAL SERVICES

Programme	Sectoral Committee Proposals for 5-year period		1966-67 Budget	
	Programme	Investment Rs. Million	Programme	Allocations Rs. Million
5. Government assistance for rural housing, roads, village development, etc.				
(i) Village expansion			Part of Sectoral programme	4·5
(ii) Rural Development				1·8
(iii) Anuradhapura Preservation Board				2·0
(iv) Probation and Child care and Social Services				·2
				8·5
			Grand Total	121·5

Action to undertake such a manpower study has been initiated by the Government and the services of an Expert have been obtained. The possibility of increasing the capacity of the Education Department to undertake a larger programme of investment on technical education during 1966-67 will be actively pursued.

On **Housing** the budgetary allocation made to the National Housing Department from the National Housing Fund in 1966-67 is Rs. 15 million. The Department will also utilise a further sum of approximately Rs. 14 million which will be available in the National Housing Fund at the end of the current financial year. The housing programme will have three facets : a programme of public sector house construction, a programme of financing house construction by house owners by reorganising the housing fund, and a programme for making land available in the suburbs of Colombo for house building.

The work on 800 middle class flats and 300 working class flats which are already under construction will be continued during the next year. At the same time a major programme of construction of housing units in the suburbs of Colombo is being prepared and the Department is investigating the feasibility of implementing this programme with the least possible delay by engaging a firm with adequate capacity for this task, on the basis of world-wide tenders.

The National Housing Department proposes to examine the possibility of organising the National Housing Fund on a more viable basis and obtaining wider participation from the private sector in the housing investment. A programme of land acquisition and reclamation to make approximately 6,000 housing lots available in and around Colombo will also be undertaken in co-ordination with the Land Reclamation Project. This programme will relieve in substantial measure the acute shortage of land for housing which acts as a serious impediment to the expansion of house construction in Colombo and its immediate environs. It would be possible to organise this programme on a self-financing basis, and the proceeds from sale of reclaimed land could go to finance house building. The scale of activity under these 3 programmes must measure up to the size of the problem as determined by population growth as well as the need to reduce the backlog of the housing needs.

The Housing Department has now extended the loan scheme to reach the semi-urban and rural areas by offering loans below Rs. 2,000 for house construction. From the votes of the Land Commissioner's Department a sum of approximately 5.2 million will be used to subsidise house construction in the rural areas. There is need for a co-ordinated programme of rural housing which will link together the different investments on housing financed by the State through the Land Commissioner's Department, grants to the local authorities, the Land Development etc. A programme for the improvement of rural housing standards has a significant place in the development of the agricultural sector and the retention of the rural population in that sector. It is also linked with the wider problem of motivating the peasants to achieve higher income levels and better living standards, all of which will contribute to a higher level of productivity.

The National Housing Department in its present organisational form may not be able to co-ordinate all the activities envisaged in a comprehensive programme of urban and rural housing, particularly the housing development in, and suburban expansion of Colombo. It is therefore necessary to devise an appropriate organisational form and equip it adequately for the implementation of such an expanded programme. This task will be given high priority.

The Local Government Department is allocated a sum of Rs. 15.8 million for grants to local authorities for village works, public amenities etc. These investments together with the expenditure that would be incurred by Rural Development Societies on village works and by the Kandyan Peasantry Commission on medical and school buildings will go to augment the investment on Social Services during the next financial year.

(III)

Implementation of the Programme of Development for 1966-67

The Capital Budget of Rs. 758 million for the year 1966-67 makes a heavy demand on the capacities of the Government Departments and other implementing agencies which will undertake the execution of the programmes and projects included in the Budget.

The target of actual expenditure on the commitment of Rs. 760 million proposed for 1966-67 is fixed at approximately Rs. 680 million. In order to achieve this target of investment, Government Departments and State Corporations would need to step up their spending capacities by approximately 35 per cent.

The development effort cannot be scaled down to suit a low capacity administrative machine. It is necessary to gear the State machinery to a more intensified effort at development and thereby create new capacities for the execution of progressively larger programmes of development that would be undertaken. Within the framework of the 1966/67 Capital Budget itself some effort has been made to expand the operational capacities of Government Departments and Corporations. In 1966/67 a substantial investment will be made on machinery and equipment needed by larger construction departments, such as, the Irrigation Department, the Public Works Department, the Land Development Department, the Agricultural Department and the State Engineering Corporation. A large allocation has been made to various Government Departments for transport equipment.

The success with which targets are achieved during the next financial year would also depend to a large extent on the effectiveness with which Ministries and other implementing agencies programme the work. One of the causes of under-expenditure in the past is the fact that budgets often included projects on which definite operational plans had not been prepared. It is evident that deficiencies in the programming for implementation of projects exist at all levels of the administrative machine. A clearly defined programme of work which sets time limits on decisions and on activities ensures that the major decisions at different levels are taken in time. It also focuses attention on the obstacles to the fulfilment of the programme and induces early decisions for overcoming them. It is with this objective in view that the Planning organisation has decided to undertake a regular review of the progress made in implementing projects and programmes undertaken by Government Departments and State Corporations. During the next financial year a system of effective programming and regular progress review covering all major projects included in the Budget will be installed for all Government Departments and Ministries undertaking development work. This work has already commenced.

The speedy and effective implementation of projects contained in the Budget for 1966/67 presupposes the efficient operation of other sectors of the economy. Frequently, the bottle-neck in supplies, like the shortage of imported construction materials and similar causes can render operational plans and time schedules a waste of effort. The implementation of a programme of the magnitude proposed in the 1966/67 Budget will depend to a large extent on the efficient functioning of the machinery which administer the import programme. The release of the foreign exchange, the issue of import licences and the follow-up on the flow of goods will either impede or accelerate the pace of work depending on the level of efficiency maintained in these activities.

One of the urgent tasks pertaining to the 1966/67 Budget is a systematic individual evaluation of all major projects that are proposed for the coming year. This has immediate bearing on the implementation of the 1966/67 development programme as it would become necessary to secure a larger volume of project aid in order to finance the increase in the foreign component of the Capital Budget. Assuming an increase of approximately Rs. 180 million in actual investment the corresponding increase in the foreign component would be approximately Rs. 90 to 100 million. The current year's import programme of Rs. 2,300 million has been estimated on an inflow of commodity aid of approximately Rs. 500 million. This import programme provides for the foreign exchange needs of a government capital budget which is smaller by Rs. 180 million. The Government has therefore to find the means of financing the deficit in external resources through project aid from consortium countries, countries in the Socialist bloc, and through credits from lending agencies including international agencies. For the purpose of project aid, it is necessary to identify those investments included in the 1966/67 Budget which could be regarded as distinct projects. These projects would have to be formulated and presented in an appropriate form to enable aid-giving countries and agencies to evaluate them for purposes of project aid. The need for the identification of projects in this manner is all the more urgent for the coming year, as part of the aid offered as commodity aid for the current year will be available only in the form of project aid. Table V includes a tentative list of the projects which are suitable for external financing.

The fulfilment of objectives contained in the 1966/67 development programme and the creation of conditions for a much larger effort at development than in the past will require the effective participation of all elements in the community. It would not be possible to sustain the development activity at a higher tempo if the programme and the disciplines that go with them are administered bureaucratically and imposed on the people from above. The effective participation of the people in the implementation of programmes should be enlisted through representative agencies from the primary level upward. A promising start has already been made in the field of agricultural activity by securing the participation of cultivation committees and co-operative organisations in the preparation of forward plans for crops. If projects and programmes are to be made meaningful to those engaged in them they have to be broken down to clearly identifiable components so that the various responsibilities and task of the groups and individuals participating in the programme or project are distinctly defined and easily recognisable.

A programme of economic development of the magnitude contemplated in the Budget for 1966-67 must necessarily impose its own discipline on the country if it is to be successfully implemented. An intensification of development activity in this manner will imply a change of perspective from the short-term objective of increasing consumption even at the risk of exhausting resources, to a long-term objective of achieving a permanent increase in income and a higher level of employment. The country would have to recognise the fact that the persistent pressure for increases in welfare amenities and subsidised services can cast the present generation in the role of a prodigal parent who wastes his inheritance and leaves his children in a state of impoverishment. The most effective method of bringing home to the people the tangible benefits of a well conceived programme of economic development is to secure their participation on a wider and a more active scale in the formulation and implementation of programmes. Such a process would lead to the willing assumption of responsibilities and the ready acceptance of the disciplines which are inherent in any major programme of development.

TABLE V

STATEMENT OF PROJECTS SUITABLE FOR EXTERNAL FINANCING

Description	*Budgetary Provision*	*Head*	*Vote*	*Sub-head*
Government Press—Machinery	5,500,000	30	3	9 & 10
Survey—Surveying Instruments	500,000	58	3	12
Irrigation— Lift Irrigation, Reclamation, Major Irrigation—Machinery and equipment	10,000,000	56	7	18
Land Development— Machinery and equipment	3,000,000	62	7	67
Electrical—Maskeliya Transmission	1,000,000	63	7	12
Health—Equipment for new Institutions	2,000,000	81	5	13, 14 & 15
Port Commission—Pilotage Facilities	3,570,000	86	7	15
Port Commission—Plant and equipment	1,250,000	86	7	19
Textile Corporation	2,500,000	90	7	9
Cement Corporation— Kankesanturai Expansion	7,500,000	90	7	10
Cement Corporation— Expansion on Puttalam	1,600,000	90	7	10
Cement Corporation— Colombo Packing Plant	400,000	90	7	10
Ceramic Corporation— Insulator Project and Expansion of Kiln Factory	1,500,000	90	7	11
Hardware Corporation— Foundry	3,000,000	90	7	17
Eastern Paper Mills Corporation— Paper Board Mill	8,200,000	90	7	15
State Engineering Corporation— Construction Machinery	6,800,000	90	7	21
Fertilizer Corporation— Fertilizer Factory	15,600,000	90	7	24
Fisheries Corporation— Tuna Boats, Trawlers, &c.	10,000,000	90	7	25
Fisheries Corporation— Gear Factory	2,000,000	90	7	25
Salt Corporation—Machinery	1,600,000	90	7	27

TABLE V—(*Contd.*)

STATEMENT OF PROJECTS SUITABLE FOR EXTERNAL FINANCING

Description	*Budgetary Provision*	*Head*	*Vote*	*Sub-head*
Plywood Corporation— **Plywood Factory** **Chipboard Factory**	4,000,000	90	7	28.
Ministry of Local Government— **Water Supply Schemes**	5,000,000	125	5	—
Department of Agriculture— **Bopatalawa/Ambewela Herds**	500,000	135	7	14
Marketing Department— **Machinery and Equipment for Canning Plant**	250,000	140	7	12
Milk Board— **Sterilizing Plant and Equipment for Milk Distribution**	1,650,000	134	7	10 & 11
Education Department— **Science Laboratories**	1,500,000	145	5	13 to 27
Department of Labour—Equipment	1,000,000	159	5	10 & 11
P. W. D.—Roads and Bridges	5,000,000	164	7	71 & 72
P. W. D.—Equipment	5,000,000	164	7	102
Railway—Permanent Way Materials	7,000,000	171	7	75
Railway—Extension of Colour-light signalling	1,800,000	171	7	98
Civil Aviation—Replacement of Fire Equipment	2,000,000	172	3	11
	122,220,000			

In addition to the projects listed above, the following projects will receive priority in the task of project study and elaboration. They will be included among projects on which external aid would be sought:—

(1) Tea Machinery Rehabilitation.

(2) Development Programme for Public Bus Transport.

(3) Development Programme for Truck Transport.

(4) Mahaweli Diversion—Phase I.

(5) Mechanisation of Paddy.

TECHNICAL APPENDIX

The procedure that has been followed in drawing up the overall perspective is to present a set of interlocking tables for the base year and the final year so as to exhibit the inter-relationships between the movements of income, savings, the foreign balance and investment and the implied division of economic activity between the Government and private sectors. The calculations have throughout been made in the prices of the base year. There would oridinarily be an inevitable element of artificiality in this procedure, especially when it is known that the probable trend of export prices is downward. In the present exercise an allowance has been made for this by adopting deliberately conservative production targets in the export sector.

The starting point of the exercise has been a projection in Table A of Gross Domestic Product for 1971, by economic sectors, based wherever possible on the targets assumed in the programmes of the sectoral planning committees. The resulting average rate of growth for the economy as a whole of 5.2 per cent makes it reasonable to assume a rate of growth in 1971–72 of 5.7 per cent. These rates of growth imply a certain import programme in 1971 as well as a forecast of probable export earnings which, together with certain invialble items, in turn determine the net external resources that must supplement the gross domestic product in 1971. The projected availability of total resources that results in 1971 and their disposal is shown in Table B. The use of resources calculation requires an assumption about the capital output ratio applicable to the economy as a whole taken here to be 3.25 ; and this ratio also provides the basis for a preliminary assessment of the size of the total investment programme and of its employment potential.

The centre piece of the exercise has been the preparation of the set of Government accounts in Table C such that its components are consistent with the available national accounts categories. In an interlocking set of accounts Government consumption in national accounts has to be identical with the current expenditure of Government on goods and services in the Government accounts. Similarly, the concepts of capital formation in the two sets of accounts must be the same. Since the national accounts procedure is compelled for purely statistical reasons to treat public corporations as being in the private sector, it has been found necessary to adopt the same procedure in drawing up the Government accounts. This has implications for the comparability of the figures of " Government Capital formation " presented here with those contained in the annual capital budget, and this is explored in the main text. For the present it is sufficient to note that the projection of Government Accounts in 1971 is, on the revenue side, based on current rates of taxation and on the expenditure side, on the assumption that Government current expenditure will grow at 4 per cent annually. The one majorpolicy assumption built into the projection is that the net food subsidy will be maintained at the present level. This raises the item " indirect taxes net of subsidies " by the amount by which the subsidy would otherwise have grown, and is a factor making for the conversion of the Government deficit of Rs. 58.3 million in 1965 to a modest surplus of Rs. 37 million in 1971. This surplus is equal in national accounts terminology to Government savings, which together with private savings and net external assistance finances total capital formation. The quantum of Government capital formation that can be financed then depends on the assumption about the probable division of external assistance between the private and public sectors and net Government borrowing from the private sector. In the present calculation, 65 per cent of such assistance has been assumed to be availabe to the public sector in 1971, and borrowing from the private sector has been set at Rs. 474 million.

Table D presents the private savings that are implicit in the nature of the Government's transactions set out in Table C. The procedure as been to add to G.D.P. all transfers from Government to the private sector and deduct from G.D.P. the gross receipts of Government other than indirect taxes so as to get a measure of private disposable income, from which in turn private consumption is deducted to get at the savings remaining in private hands as a residual. Table E shows the disposition of these private savings. They must together with foreign loans and grants to the private sector just suffice to finance private capital formation after allowing for private sector lending to Government.

The remaining tables bring together the international transactions necessary to complete the macro-economic picture. The assumed net availability of external assistance in the form of loans and grants as set out in Table G must definitionally equal the net deficit on goods, services and private donations account. It must also just suffice together with domestic savings to finance the total capital formation planned for. Table F presents this identity in the form of a consolidated capital account for the economy as a whole. Table H presents a detailed break-down of the composition of imports.

The preliminary projection of investment in the terminal year given in Table B necessarily involved the use of an incremental capital output ratio. Whether the value initially assumed for this ratio turns out in fact to be the actual value implicit in the plan will not emerge until the project-content of the plan finally takes shape ; if the ratio is different then the overall calculations will have to be revised. It is therefore, in the nature of the exercise that one has initially to work with a very approximate value for the capital output ratio. The value traditionally assumed in recent planning exercises in Ceylon has been 3.5 where both the numerator and the denominator refer to gross magnitudes inclusive of depreciation. For the purpose of the present exercise it has been thought desireable to use a somewhat lower figure of 3.25. This was due to the fact that the country is aiming at a more rapid pace of progress in domestic agriculture than has been envisaged in the past, i.e., in a sector where output can be made to respond fairly easily to changes in methods ; that the heavy investments usually involved in extensive irrigation schemes will require to be considerably more productive than in previous years before they can become eligible for final inclusion in the plan; that the contemplated reorganisation of public sector industry is, likely to involve a better return to capital, and that the pattern of private sector industrial development is unlikely to be too capital intensive.